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IN THE

Supreme Court of the United States.

OCTOBER TERM, 1930. No. 378.

STANDARD OIL COMPANY (INDIANA), STANDARD OIL COMPANY (NEW JERSEY), TEXAS COMPANY, GASOLINE PRODUCTS COMPANY, *et al.*,

Defendants-Appellants,

vs.

UNITED STATES OF AMERICA,

Petitioner-Appellee.

MAIN BRIEF FOR "PRIMARY" DEFENDANTS.

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Defendants-Appellants,

vs.

UNITED STATES OF AMERICA,

Petitioner-Appellee.

MAIN BRIEF FOR "PRIMARY" DEFENDANTS.

The opinion of the District Court is reported in 33 F. (2d) 617 (see, also, Vol. III, p. 1988 of the Transcript).

From the decree thereafter entered in the United States District Court for the Northern District of Illinois, Eastern Division, this appeal is taken under Paragraph 2 of the Act of February 11, 1903 (Title 15 U. S. C. A., Sec. 29). A Statement as to Jurisdiction was duly filed with this Court and it was announced, on October 20, 1930, that "probable jurisdiction is noted."

After the filing of the petition in the District Court (Vol. I, p. 1) charging violation of the Sherman Anti-Trust Act, the Attorney General filed a certificate of general public importance (Vol. I, p. 400) under Paragraph 1 of the Expediting Act, as amended (Title 15 USCA, Sec. 28). The cause

was thereupon assigned for hearing before Circuit Judges Evans, Page and Anderson.

On March 13, 1925 the Court, on the motion of the Government, referred the cause to Charles Martindale, Esq., of Indianapolis, as Special Master, "to take and report to the court the evidence adduced or offered by the petitioner and the defendants respectively, together with his findings of fact and conclusions of law" (Vol. I, p. 402). Later, a supplemental petition, adding other defendants, was filed.

On December 7, 1927, the Special Master filed the evidence together with his findings of fact and law (Vol. I, p. 424). His conclusion of law was that "the equities in this cause are with the defendants, and the Petition and Supplemental Petition in this cause should be dismissed for want of equity" (Vol. I, p. 664).

The case was thereafter heard by the Court on the Petitioner's exceptions to the Master's report (Vol. I, p. 664).

On June 11, 1929, the Court filed its opinion (33 F. (2d) 617; Vol. III, p. 1988). The Court, by Judges Evans, and Page, held (without passing on any of the exceptions) that the Petitioner was entitled to a decree as to some of the issues, Judge Anderson dissenting and expressing the view that the Master's report should be confirmed (p. 2020).

On January 20, 1930, the final decree appealed from (Vol. III, p. 2020) was entered in favor of the United States.

In the petition the defendants are classified. The *"primary defendants"* are the four named at the head of this brief together with the Standard Development Company which is the research and patent owning subsidiary of the Standard Oil Company of New Jersey and, for the purposes of this case, need not be differentiated from the New Jersey company. The *"secondary defendants"* were forty-six producers of gasoline throughout this country who were operating, or were authorized to operate, under licenses from one or more of the primary defendants.

By the supplemental petition, Adams and the M. W. Kellogg Company were added as primary defendants; as to

them, the petition was dismissed by the final decree which was entered, and the Government has not appealed.

All "primary defendants" have appealed from the portions of the decree adverse to them (Vol. III, pp. 2022, 2026). This brief is upon their behalf, jointly. Their several interests are not, in all respects, the same; some have no connection with some matters charged by the Petitioner. But it was considered impossible to burden this Court with four separate briefs on the general aspects of the case. The Texas Company, one of the primary defendants, has filed a supplemental brief, on specific points.

All secondary defendants were served with summons and severance (Vol. III, pp. 2056-2091). Twenty-five of them have appealed (Vol. III, p. 2022-2025; 2028-2056).

Outline of the Facts.

We shall, for brevity, refer to the Standard Oil Company, an Indiana corporation, as "Indiana"; and to the Standard Oil Company, a New Jersey corporation, as "New Jersey". The latter controls the Standard Development Company as its patent owning and research subsidiary; the two are treated as one throughout the record and in this brief.

The petition charges that the defendants have entered into "a series of agreements" "constituting and evidencing" a violation of the Sherman Act. Those agreements relate to the manufacture of gasoline, the nature and manufacture of which should be had in mind.

Gasoline and the early method of producing it:

So far as concerns any issues on this appeal, we may consider that all gasoline is produced from "crude oil".

Crude oil, as it comes from the ground, is a heavy, brown, viscous liquid. Chemically, it is a complex mixture of various hydrocarbons.

When crude oil is heated, the lighter hydrocarbons (that

is, those which have the lowest boiling, or vaporizing, point) first come off, as a vapor; then, as the temperature is raised, the next heavier hydrocarbons vaporize; then the still heavier, etc. These products which thus separate from the crude oil as vapor may be collected separately and, upon cooling, each returns to liquid form.

Thus, if crude oil is heated, at atmospheric pressure, to a certain temperature, vapors come off which, when condensed, form gasoline. At a higher temperature kerosene comes off; then, as the temperature is further raised by successive stages, gas oil, lubricating oil and other products come off.

That is, crude oil is a mixture of gasoline, kerosene, gas oil, lubricating oil, etc. and, by heating the oil in stages and condensing the resulting vapors, the principal components may be separated out, subject to further refining operations.

The foregoing outlines the "atmospheric pressure distillation", or "fractionation" process; it separates out the fractions from the complete whole. It was used for many years, principally for the separation, from the crude oil, of gasoline, kerosene, lubricants, etc. although, in the early days the gasoline was not in great demand and was sometimes thrown away as an undesired, incidental and waste product.

This distillation process is still used for separating the various constituents of crude oil, and, at the present time, gasoline is one of the most desired of the oils thus separated. Gasoline so obtained is known as "straight run" gasoline.

The demand for more gasoline:

With the advent of the internal combustion engine and the automobile, the gasoline demand enormously increased. In the year 1900, some 8000 automobiles were in use in this country, while, in 1913, they had increased to about 1,260,000. Thus, automobiles (and they create only part of the demand for gasoline) had multiplied more than 150 times, although crude oil production had increased less than 4 times (Ex. 490, Vol. II, p. 870).

Up to 1912 it had been possible to meet this great increase in the demand for gasoline by including in it a part of the distillation products which formerly went into kerosene, and by more efficient refining methods. The point was reached, however, where it was impossible to separate substantially more gasoline from crude oil. No matter how efficiently and carefully the atmospheric distillation process might be conducted, it could do little more than separate out the gasoline that was there. It could not *create* substantial quantities of gasoline.

The processes dealt with in the agreements here in controversy *do* create gasoline in immense quantity. After the gasoline, kerosene, lubricants and wax contained in the crude oil have been separated out by the old atmospheric distillation process, the remainder is so treated as to transform the bulk of it into gasoline. Various means of doing this have been devised, some chemical, some electrolytic and some by the application of heat and pressure (Vol. V, pp. 3017-18). The processes here involved are of the latter kind, only, and are known as the "pyrolytic" or "heat and pressure" cracking processes.

"Cracking" processes:

No one knows, definitely, what takes place in a cracking process. And it is unnecessary, for the purposes of this case that we should know more than that it brings about some molecular change in the structure of the oil which *creates* lighter products from heavier ones.

Cracking for the manufacture of *gas* such as was used in the Pintsch system of car lighting, was very old, and was and still is an important industrial activity (Vol. V, p. 3020). Such cracking is usually effected by contacting the oil with red hot metal surfaces, or hot tubes; this was known as a "flash" process. It also produced some 15% to 20% of liquids which had not been changed into gas (Vol. V, p. 3020). Extensive efforts were made to modify this process to obtain a decreased yield of gas and an

increased yield of liquids from which a motor fuel might be separated; but such efforts have not resulted in practical success (Vol. V, pp. 3041-2).

It was early learned that some very heavy oils, heated in bulk, could be cracked at atmospheric pressure to make, mainly, kerosene; and this process was widely used for that purpose (Vol. V, pp. 3018-9). While this cracking made only 2 to 3% of gasoline (Vol. V, pp. 2963-5), there was formed, on the inside of the bottom of the still, a layer of coke from 4 inches to 2 feet thick, constituting about 4% of the charge of oil. So this process made an inordinate amount of coke for a small amount of gasoline. Because of the insulating coke layer, the metal bottom of the still became red hot, lost its strength and sagged from the mere weight of the contents of the still; if subjected to real pressure, the bottom would inevitably have blown out.

Small laboratory receptacles could be made heavy and strong enough to run red hot even under pressure; but it was well recognized that such operations could be only experimental since it was impossible to carry on such distillation under pressure in larger, commercial size vessels with red hot walls (Vol. V, pp. 3053, 3056-62).

The Burton Cracking process:

The foregoing presents, generally, the situation up to 1912.

For some years prior to that date, the rapidly increasing use of internal combustion engines and the consequent demand for gasoline, caused great concern to the producers of gasoline. Indiana's research department had been actively seeking a process for obtaining more gasoline from a given quantity of crude oil. Before putting into use, early in 1913, the first commercially successful process for producing gasoline by cracking, it had expended more than $1,000,000

in research and experimental work and in erecting the first battery of stills for carrying out the process (Vol. II, pp. 997-8).

This was known as the Burton process, from the inventor of its fundamentals, who obtained a patent therefor. Indiana put the process into operation on a large scale early in 1913.

The fundamental things which Burton contributed, and which resulted in success, were the selection of "gas oil"* as the material to be cracked in a bulk pressure distillation process, together with the proper correlation of operating temperatures and pressures and separation of the gas under still pressure (Vol. V, pp. 3603-08). The Burton process produced over 30% of gasoline and only about one tenth of one percent of coke. The efficiency of the process was still further increased by important supplementary patented improvements made by Indiana's research department.

It became apparent that something of major importance had been accomplished. The Burton process was the first practical, successful cracking process for making gasoline; it immediately went into extensive use and was so good that it was the sole process in practical use for about seven years after its introduction.

Other refiners soon learned of this development and applied for licenses.

The Indiana Company's early licenses:

Indiana thus had developed and patented something which was highly successful and in great demand. There was grave difference of opinion, among Indiana's officers, as to how the situation should be handled (Vol. II, p. 1000-1). Two courses were open, one, to maintain the process as a monopoly for Indiana's sole use, and the other to license others. Indiana was unwilling to grant licenses if the licensees could

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* "Gas oil" is the fraction of the distillate from crude oil which is left over in a refinery making gasoline, kerosene, lubricants and wax (see p. 4 *supra*).

use the inventions to the detriment of its own sales where it did a retail marketing business.*

Indiana began licensing the Burton process in January, 1914, and, in the next seven years, it licensed the sixteen refiners noted in the margin,† the early ones being for two years only. Indiana was feeling its way—determining whether a licensing program would be detrimental to its interests.

These were ordinary patent licenses containing only ordinary provisions. Each licensee recognized the validity of the patents under which it was licensed, as, indeed, a licensee does by the mere acceptance of a license. In the early licenses (Nos. 2, 3, 5, 6, 9, all of which had expired before this suit was brought) Indiana required the licensee to agree not to use the licensor's patent property to the detriment of the licensor's own business by selling gasoline made under the license in the States in which Indiana did a retail marketing business. In other licenses

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*It was doing such business in Indiana, Illinois, Iowa, Minnesota, Michigan, Wisconsin, Missouri, North Dakota, South Dakota, Nebraska, Wyoming, Colorado and Oklahoma. The location and extent of the retail marketing territory is necessarily dependent upon locations of refineries and upon freight rates. See Vol. II, pp. 934-5, 937, 939-940.

† Standard Oil of Kansas, February 1, 1914, Feb. 1, 1917 (Nos. 2, 11, Vol. II, pp. 1033, 1112).

Solar Refining Company, June 2, 1914, June 2, 1916, July 1, 1921 (Nos. 3, 7, 30, Vol. II, pp. 1041, 1074, 1308).

Standard Oil of New Jersey, Aug. 15, 1915, Mar. 15, 1917 (Nos. 5, 12, 33, Vol. II, pp. 1058, 1122, 1345).

Magnolia Petroleum Company, Dec. 31, 1915, Jan. 1, 1918, March 2, 1923 (Nos. 6, 14, 57, Vols. II, III, pp. 1066, 1140, 1600).

Standard Oil of Kentucky, July 1, 1916 (No. 8, Vol. II, p. 1087);

Tide Water Oil Company, July 1, 1916, July 1, 1918 (Nos. 9, 17, Vol. II, pp. 1096, 1161).

Standard Oil of Ohio, Oct. 14, 1916, Jan. 1, 1921 (Nos. 10, 27, Vol. II, pp. 1103, 1283).

(Nos. 7, 8, 10, 11, 12, 13, 14, 16, 17, 18, 19, 20, 22, 27, 28, 29, 30) Indiana reserved an option to cancel if the licensee sold in those States. (As to those "territorial restrictions" see pp. 60-61, 63-65, *infra*). There was no such restriction or reservation in various of the later licenses (see p. 88, *infra*). The royalties were, in some licenses, based upon the net profits from the use of the inventions (22½ or 25% thereof); in some there was a fixed payment per month for each still in use; in some the royalty was so much per gallon or barrel.

In the same period Indiana made three agreements* as to its foreign patents; and it obtained, from the Standard Oil of New York, a license under the latter's Chamberlain patent (No. 23, Vol. II, p. 1233).

Indiana, in granting the foregoing licenses, granted rights under no patents other than its own. They were

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Standard Oil of Louisiana, March 15, 1917, Feb. 9, 1922 (Nos. 13, 39, Vols. II, III pp. 1131, 1402).

Standard Oil of California, July 1, 1919 (No. 16, Vol. II, p. 1151);

Utah Oil Refining Company, Dec. 1, 1918 (No. 18, Vol. II, p. 1170);

Petroleum Refining Company, January 16, 1919 (No. 19, Vol. II, p. 1179);

Humble Oil & Refining Company, April 14, 1919 (No. 20, Vol. II, p. 1188);

Standard Oil of New York, April 30, 1919 (No. 22, Vol. II, p. 1224);

White Eagle Oil & Refining Company, Aug. 18, 1920 (No. 26, Vol. II, p. 1269);

Galena Signal Oil Company, May 10, 1921 (No. 28, Vol. II, p. 1290);

Aetna Refining Company, June 3, 1921 (No. 29, Vol. II, p. 1306).

* Imperial Oil Company of Canada, Jan. 30, 1914 (No. 1, Vol. II, p. 1027);

Standard Oil of New Jersey, April 15, 1915, March 12, 1918, April 15, 1919 (Nos. 4, 15, 21, Vol. II, pp. 1049, 1149, 1197).

Standard Oil of New York, May 29, 1919 (No. 24, Vol. II, p. 1237).

ordinary licenses the terms of which were fixed and imposed by the licensor alone. *Neither in these nor in any others of the numerous licenses here involved, were there any restrictions as to the price at which the product should be sold.*

Thus, for seven years Indiana's Burton process continued to be the one, and the only one, used and in demand.

Developments by others than Indiana Company:

Indiana having devised and developed a cracking process which was practical and efficient in large scale operation and had gone into extensive use, others naturally redoubled their efforts independently to do something of the same sort. The goal was a process using none of Indiana's inventions (so as to avoid litigation with Indiana, or the necessity of paying royalties to it) or, failing that, some improvements which could be traded to Indiana in return for a favorable license arrangement.

It was inevitable that improvements in cracking processes would be made. And that is what happened.

The Texas Company, a very large producer, one of Indiana's principal competitors and one of the "primary defendants", acquired the Adams inventions; and its research department, by using many of Adams' ideas together with the further inventions of Holmes, Manley and others, developed the "Holmes-Manley process", a rather complicated continuous type of cracking process.*

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* A modern cracking process is not a simple operation, but a complicated series of steps including the separation and preparation of the oil to be cracked, heating it up to a cracking temperature, holding it at such temperature for an adequate time, preventing too much deposition of coke, and depositing the inevitable quantities thereof at points where they will do a minimum of harm, separating the various products of reaction, fractionating, condensing and purifying the gasoline, separating and recovering certain intermediate stocks suitable for further cracking and returning them (preferably hot) to the process, and removing tarry matter before it can form coke and clog the apparatus. The different processes are built up of some similar and some different steps, and it is not strange that several different

Indiana-Texas cross-license; agreement No. 31:

The Texas Company, from about 1911, conducted research and experimental work on cracking processes, but did not construct any plants until 1919, when it installed a Holmes-Manley plant at a cost of about $3,000,000 (Vol. II, p. 897).

In 1920 it was advised by its counsel that Indiana's Burton process infringed some of the Texas patents. In reply, Indiana advised Texas that the latter infringed some of its patents; the Texas counsel concluded that Indiana's assertions were well founded (Vol. II, pp. 898, 919-920).

Texas had then not only made its first installation at a cost of $3,000,000, but was planning additional units to cost about $14,000,000 (Vol. II, p. 897). Indiana had been operating on a large scale for seven or eight years, had invested large amounts of money in cracking stills, and had licensed many other refiners who had similar large investments and who, also, were subject to suit by Texas; also, it desired to have the right to install Holmes-Manley units which were then recognized to be superior, in certain important respects, to the Burton.*

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companies were the first to discover and patent the best method of carrying out certain of these steps, the combination or sequence of which was necessary or desirable for manufacturing to the best advantage.

Cracking processes may be "continuous" or "batch". In the former a flowing stream of oil is treated; in the latter a batch is treated in a container which is then emptied and filled for another treatment.

* The Indiana and Texas companies were confronted with a very practical situation. Each might sue the other with the attendant liability, to each, for large damages for infringement; and each would jeopardize its large investment. If both won neither could continue to operate. Each had the choice between settlement and litigation. Litigation, with so much at stake, would have been folly. Settlement was the normal thing for sensible business men charged with large responsibilities. The undisputed evidence shows that was the only motive of the parties (Vol. II, pp. 898-900, 920, 928-9, 1004-5, 1017-8).

On August 26, 1921 Indiana and Texas entered into a license agreement (No. 31, Vol. II, p. 1315) which is the first of those designated by the Petitioner as "cross-license, primary agreements", and attacked in this case.

Here each party licensed the other under its patent rights, present and future, relating to "pressure cracking", and agreed that either might grant licenses under the patent rights of *both*. Each released the other from claims for past infringement. Texas released the existing licensees of Indiana from claims for past infringement (Texas had issued no licenses), and Indiana agreed to pay to Texas twenty-five percent of the royalties from existing licensees, royalties from new licensees to be divided equally between the parties. Texas gave Indiana an option* to purchase part of its cracked gasoline under certain terms and conditions and in certain contingencies. Both parties warranted title to their patents and a form of license was approved in the event that licenses were issued under the patent rights of *both* parties. Since each of the parties had recognized the necessity for a license from the other, each obviously had, in order to be fair to its licensees, to place itself in a position to grant to them rights under the patents of the other.

The parties agreed upon the royalty to be charged when licenses were issued by either party under the patent rights of *both*. This was because each was unwilling to have licenses issued under its patents except on terms acceptable to it—a perfectly natural and reasonable position. The royalty specified in the attached form of license (Vol. II, p. 1327) was four tenths of one cent per gallon of charging stock and this was the royalty then being paid to Indiana under its own patents only (see Vol. II, pp. 899, 1022, 1310). So, under this agreement, licenses could be issued by either party under the patent rights of *both* for the *same royalty* which was then being charged by one of the parties for licenses under its own patents only. Each

* See pp. 41-42, 49, 70, 100-105, *infra*.

party was left free to grant licenses under its own patent rights only, on any terms and conditions which it saw fit to require; this freedom of action is illustrated by the negotiations leading up to agreement No. 55, where Texas acting for itself alone entered into a contract with Gasoline Products Company (see pp. 76-80, *infra*).

Indiana agreed not to alter existing licenses so as to fix the royalty at less than three tenths of one cent per gallon without the consent of Texas. This was because Texas covenanted not to sue these licensees so long as they paid to Indiana their royalties under existing contracts in which royalties Texas was to share. Naturally Texas would not refrain from enforcing its own patents without reserving some control of the charge to be made for such immunity and, as Indiana was reserving the right to alter the rate of royalty in existing licenses and to change from a percentage of profits to a fixed royalty, Texas was unwilling to give Indiana uncontrolled discretion to make these changes without reserving some control of what it should receive for the immunity it granted. It is the ordinary case of a patentee reserving control of what shall be charged for immunity from suit under his own patents (see pp. 133-136, *infra*).

Since a settlement was to be made, it would have been folly merely to settle in respect of issued patents, for each party knew that the other had applications for patents pending in the Patent Office, both expected that their respective processes would be improved by their later inventions, and both were reasonably sure that such inventions would be necessary to the free and perfect development of existing processes.

Hence, it was natural and necessary that the settlement should be inclusive, otherwise the whole purpose would have been thwarted, and instead of an assurance of freedom of operation and improvement there would have been assurance of early conflict. So licenses under future patents were included.

Under authority of the foregoing, Indiana and Texas, separately, granted five licenses under the patents of both.* Each contained an option to Indiana to purchase, at the prevailing market price, one third of the licensee's production under the license in the States in which Indiana did a retail business; the royalty was four tenths of a cent per gallon of charging stock—the same that Indiana had been receiving under its own patents alone.

The Gasoline Products Company:

Meanwhile the Gasoline Products Company, a patent licensing and not a manufacturing company, had acquired various patents on inventions of the Doctors Cross relating to a cracking process, and proceeded to license refiners under those patents. The process was commercially known as the "Cross process" and involved the use of tubes in which the oil was heated, and an unheated reaction chamber where the bulk of the "cracking" occurred, the temperature and pressure being substantially greater than those used in either Indiana's Burton process, in the Holmes-Manley process of Texas, or in the Tube-and-Tank process of New Jersey later to be considered.

(a) *Gasoline Products licenses under its own patents:*

Beginning in July, 1919 it granted licenses† for the Cross process, under its own patents alone, to fifteen companies as noted in the margin.

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* Indiana Company to Standard Oil of California, Oct. 3, 1921 (No. 32, Vol. II, p. 1336);
Indiana Company to Tidal Refining Company, Sept. 5, 1922 (No. 45, Vol. III, p. 1471);
Texas Company to White Eagle Company, Oct. 13, 1922 (No. 46, Vol. III, p. 1481);
Indiana Company to Lion Oil & Refining Company, Oct. 20, 1922 (No. 48, Vol. III, p. 1503);
Texas Company to Elliott Jones Company, Dec. 27, 1922 (No. 54, Vol. III, p. 1571).

† Indian Refining Company, July 23, 1919, Apr. 20, 1922 (Nos. 25, 41, Vol. II, p. 1250; Vol. III, p. 1425);
Globe Oil & Refining Company, January 16, 1922 (No. 34, Vol. II, p. 1347);

These were ordinary non-exclusive licenses for a limited throughput (see pp. 65-69, 133-136, *infra*), and, except for the first license, were on a royalty basis of six cents per barrel of oil charged to the units.

(b) *Gasoline Products—Texas agreement, No. 55:*

By the end of 1922 Gasoline Products had thus licensed thirteen American refiners to use its Cross process. Gasoline Products was not and is not a producer, refiner, or selling company; its total revenue came and comes from royalties for the use of the Cross process. The licensees, notwithstanding their licenses, were, because of the threat of patent litigation by New Jersey or Indiana, hesitant to construct plants and, by the end of 1922, only a few Cross cracking units agregating only 6,600 barrels per day capacity, had been built and the total royalties aggregated only $26,151 (Exs. 521, 522

Petroleum Refining Company, January 18, 1922 (No. 35, Vol. II, p. 1359);
Pure Oil Company, February 6, 1922 (No. 38, Vol. III, p. 1391);
Roxana Petroleum Corp., March 16, 1922 (No. 40, Vol. III, p. 1405);
Southern Oil Corporation, May 5, 1922 (No. 42, Vol. III, p. 1436);
Sapulpa Refining Company, May 12, 1922 (No. 43, Vol. III, p. 1443);
Sun Company, August 14, 1922 (No. 44, Vol. III, p. 1455);
Clayton Oil & Refining Company, October 19, 1922 (No. 47, Vol. III, p. 1489);
Cory Brothers & Co., Ltd., Nov. 28, 1922 (No. 50, Vol. III, p. 1532);
Indiahoma Refining Company, Dec. 2, 1922 (No. 51, Vol. III, p. 1538);
Interstate Refineries, Dec. 16, 1922 (No. 52, Vol. III, p. 1549);
Waite Phillips Company, Dec. 19, 1922 (No. 53, Vol. III, p. 1559);
Hickok Producing Company, March 2, 1923 (No. 58, Vol. III, p. 1602);
British Burmah Petroleum, May 1, 1923 (No. 62, Vol. III, p. 1637).

and 89, Vol. II, pp. 843-844, 795). Under its licenses, Gasoline Products was obliged to defend any infringement suits brought against its licensees, and, under some early licenses, to indemnify and hold the licensees harmless against all judgments rendered.

The development and profits of its business were thus dependent upon the licensees being free from infringement suits, and its very existence would be in jeopardy if such suits were brought. Moreover, its revenue would cease, and it could not hope to grant additional licenses, unless it could offer to its licensees such improvements as would enable them effectively to compete with other refiners. Therefore, it would either have to maintain a research organization of its own, at great expense, or find means of obtaining the developments of others. By the end of 1922 Gasoline Products faced a situation requiring drastic remedies to preserve even the small business already secured.

A serious infringement suit commenced by New Jersey, and a threatened patent conflict with Texas and Indiana (see pp. 76-78, *infra*) resulted, on January 26, 1923, in an agreement* with Texas (No. 55, Vol. III, p. 1579) in accordance with which

> (1) Gasoline Products acquired the right to extend to its then existing licensees, and to grant to future licensees, immunity in their use of the Cross process from all claims under patents of Texas, Gasoline Products agreeing to pay to Texas 2 cents per barrel of stock charged into the stills (2.4 cents in the case of future licenses), or 30% of the royalties paid by the licensees.
>
> (2) Texas agreed to open negotiations with Indiana and New Jersey to acquire for Gasoline Products immunity under the patents of those companies; if and when obtained, Gasoline Products was to pay Texas an additional 10% of the royalties collected

* The Master's findings as to the situation, and the necessities of the parties, and our discussion of this Contract No. 55, are at pages 42-44, 76-80, 115-119, *infra*.

by Gasoline Products for the use of the Cross process, together with 1.2 cents per barrel charged, or 10% of collections, for immunity under Indiana patents, and .9 of a cent per barrel charged or 10% of collections for immunity under New Jersey patents.

On March 26, 1923, Texas advised Gasoline Products that it had secured for Gasoline Products and its licensees immunity under the Indiana patents for practice of the Cross process (Vol. II, pp. 842, 925-927), and shortly thereafter Gasoline Products greatly improved this process by embodying other inventions of Texas and Indiana (Vol. II, pp. 845, 862).

The New Jersey Company:

New Jersey, also, had been developing cracking improvements under the Ellis and other patents which it owned or controlled. In its variation of the fundamental process, it built upon the older tube cracking processes by adding to the cracking tubes an unfired or lightly fired tank in which important further changes took place; and its specific process became known as the Tube-and-Tank process.

It, also, had granted licenses under its own patents to use the Tube-and-Tank process, the first of which was granted on January 30, 1922; and it granted three more licenses* in that and the following year.

These were non-exclusive licenses, for treating a stated, limited quantity of oil, at a royalty of 10 cents per barrel on charging stock, or $100 per unit day of operation, or, as in the license to the Vacuum Oil Company, a paid up royalty of $100,000 per unit.

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* Beacon Oil Company, January 30, 1922 (No. 36, Vol. II, p. 1369);
Owl Oil Company, Nov. 24, 1922, July 23, 1925 (No. 49, Vol. III, p. 1512);
Galena Signal Oil Company, May 14, 1923 (No. 64, Vol. III, p. 1653);
Vacuum Oil Company, May 21, 1923 (No. 65, Vol. III, p. 1667).

New Jersey-Texas-Indiana agreements:

Mutually confronted by problems of the definition and scope of their several patents and by the certainty of conflicting claims in reference thereto, New Jersey, Texas and Indiana next sought to arrange treaties of peace. This was made possible only because of New Jersey's acquisition, by option, of the Rogers 40% interest in the Adams patents and the resulting litigation (see pp. 82-85, *infra*).

On September 28, 1923 the parties made an agreement relative to *foreign* patents (No. 73, Vol. III, p. 1737) and another (No. 74, Vol. III, p. 1749), relating to *United States* patents. These agreements defined the Tube-and-Tank process of New Jersey, the Holmes-Manley process of Texas and the Burton process of Indiana. Each party released the others and their then licensees from claims for past infringement, and each licensed the others (and empowered each of them to extend a like license to their licensees) under its patents but only for the use of the process initially owned, that is, Texas and its licensees were licensed to use only the defined Holmes-Manley process, Indiana and its licensees were licensed to use only the defined Burton process, and New Jersey and its licensees were licensed to use only the defined Tube-and-Tank process, but all without exposure to any claim of infringement thereby.

In addition, New Jersey agreed that, on request, it would license Indiana and Texas to use the Tube-and-Tank process at a royalty of 5 cents per barrel of oil; Texas and Indiana agreed that they would, on request, license New Jersey to use the Holmes-Manley process at a royalty of 8.4 cents per barrel of oil; and Indiana and Texas agreed, upon the expiration of certain important Indiana patents in December 1931, to extend to New Jersey a license to use the Burton process free of royalty. Each of the parties also agreed to license Gasoline Products and its licensees, for the use of the Cross process. There were no territorial restrictions of any kind;

and, as in every other agreement in this suit, there were no price restrictions.

New Jersey agreed to pay to Indiana one half of all royalties (or 5 cents per barrel of oil) received from its licensees for the practice of the Tube-and-Tank process.*

Further cross-licenses with Gasoline Products:

On October 1, 1923, New Jersey and Gasoline Products granted to each other licenses (Nos. 75, 76, Vol. III, pp. 1772, 1774), permitting New Jersey and its licensees to practice the Tube-and-Tank process with immunity from suit under the patents of Gasoline Products, and permitting the licensees of Gasoline Products to practice the Cross process with immunity from suit under the New Jersey patents, in each case free of royalty or other restrictions.

On the same day, Texas and Gasoline Products entered into a cross-license agreement of similar character relating solely to patent rights in foreign countries (No. 77, Vol. III, p. 1777), Gasoline Products agreeing to pay Texas twenty percent of its foreign royalties.

On October 5, 1923, Gasoline Products and Indiana granted to each other similar licenses, free of royalty or other restrictions, under foreign patents (Nos. 78, 79, Vol. III, pp. 1792, 1794).

Summary of cross-licenses:

From the foregoing it appears that cross-licenses were granted between the primary defendants, as follows:

Indiana and Texas, August 26, 1921 (No. 31, Vol. II, p. 1315);

Gasoline Products and Texas, Jan. 26, 1923 (No. 55, Vol. III, p. 1579); Oct. 1, 1923 (No. 77 (foreign), Vol. III, p. 1777);

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* The Master's findings as to these Contracts Nos. 73 and 74 are at pages 43-44, *infra*, and our discussion of them is at pages 85-96, 116-122, *infra*.

New Jersey, Texas and Indiana, Sept. 28, 1923 (Nos. 73, 74, foreign and U. S., Vol. III, pp. 1737, 1749);
New Jersey and Gasoline Products, October 1, 1923 (Nos. 75, 76, U. S. and foreign, Vol. III, pp. 1772, 1774);
Gasoline Products and Indiana (foreign patents), October 5, 1923 (Nos. 78, 79, Vol. III, pp. 1792, 1794).

As Nos. 73, 77, 78, 79 of the foregoing contracts relate to foreign patents only, they should not require consideration.

Licenses to secondary defendants pursuant to cross-licenses:

Indiana and Texas having, on August 26, 1921 (Contract No. 31), exchanged licenses with each other and authorized each to extend to its own licensees immunities under patents in the practice of the defined processes licensed, thereafter severally granted five licenses to "secondary defendants" under the patents of the licensing primary defendant and with immunity under the patents of one or more of other primary defendants, these being Contracts Nos. 32, 45, 46, 48 and 54 listed at page 14, *supra*.

And, Gasoline Products having exchanged licenses with Texas and Indiana in January and March, 1923, and with New Jersey in October, 1923, on May 18, 1923, Gasoline Products extended, to its existing licensees,[1] immunities under Indiana and Texas patents, and, on October 1, 1923, under New Jersey patents; and it also granted new licenses for the Cross process under its own patents with immunities under the patents of the other parties.[2]

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[1] No. 34, Vol. II, pp. 1353, 1357; No. 35, p. 1364; No. 38, Vol. III, p. 1398; No. 40, p. 1419; No. 41, p. 1430; No. 43, p. 1449; No. 44, p. 1464; No. 47, p. 1497; No. 51, p. 1545; No. 52, p. 1555; and No. 53, p. 1565.

[2] No. 56, Vol. III, p. 1594; No. 59, p. 1606; No. 60, p. 1618; No. 61, p. 1625; No. 63, p. 1644; No. 66, p. 1676; No. 67, p. 1683; No. 68, p. 1692; No. 70, p. 1713; No. 71, p. 1720; No. 72, p. 1728; and Nos. 523-537, Vol. III, pp. 1797-1973.

Gasoline Products in extending immunities under Texas and Indiana patents to those to whom it had already granted licenses under its own patents to practice the Cross process, did so by letters (attached to the original licenses) dated May 18, 1923 as follows (see, for example, that letter as attached to No. 34, Vol. II, p. 1353):

> "We beg to advise you that on January 26, 1923, we entered into an agreement with The Texas Company, and under such agreement secured certain additional rights from the Standard Oil Company of Indiana on March 27, 1923.
>
> "Under this agreement, we have obtained from both companies certain rights and immunities covering our original process for the production of synthetic crude, and also certain rights which have enabled us to enlarge our process and use a highly efficient type of tower we had designed, wherein the synthetic crude is distilled by its own contained heat, and benzine, recharging stock and fuel oil thus directly produced from the cracking unit.
>
> "We hereby grant you, *without additional royalty charge* although this Company is required to pay a royalty therefor to the Companies named, a sublicense under the patents now owned or acquired prior to January 1, 1937, by The Texas Company and/or the Standard Oil Company of Indiana for the operations which you are now authorized to conduct under the terms of your license contract with the Gasoline Products Company, Inc., for the production of synthetic crude oil according to the process of the Cross Patents, and for the use in connection therewith of the improved distillation towers described in our latest specifications; such sublicense to continue in effect so long as you pay the royalty provided for in, and in other respects comply with, your license contract with us.
>
> "The purpose of the above sub-license is, first to insure you against suit by either The Texas Company or the Standard Oil Company of Indiana attacking your operations as authorized under your present license contract with us for the production of a synthetic crude according to the process of the Cross Patents; and, second, to permit of the use of the distillation towers in the thereby enlarged process before mentioned and, of

course, a corresponding immunity from suit for the total operation.

"While we have at all times had entire confidence in the patent protection afforded by the Cross patents to our licensees, we have felt justified in entering into the agreement with The Texas Company and the Standard Oil Company of Indiana, paying those companies thereunder a substantial proportion of the royalties received from our licensees in order to give our licensees not only the added sense of security with respect to their operations referred to above which will necessarily result from the above grant and the resulting immunity from attack from those important interests, but also the right to use an improved design possessing a high commercial value.

* * * * * * *

"*In addition* to the immunities just described, we have obtained under the above agreement the right to grant to our old licensees sublicenses for use in connection with the Cross Process, at the low royalty of 2¢ per barrel under patents covering certain end processes and means of treating cracked spirit which we have every reason to believe will develop into methods of very substantial value.

"This sub-license would cover for use in connection with the Cross Process all United States Letters Patent, pending applications and all inventions relating to processes and apparatus for manufacturing gasoline and other light oils by cracking under pressure, and relating to the products or by-products of such processes and relating to processes and apparatus for refining such products, now owned or acquired prior to January 1, 1937 by The Texas Company and/or Standard Oil Company of Indiana; and also all future United States patents or divisible patent rights of the same general nature acquired by either or both of said companies prior to January 1, 1937, together with any and all inventions and improvements disclosed in said patents or applications or pertaining thereto (but excepting therefrom, in the case of the Standard Oil Company of Indiana, certain patent rights relating to processes for chemically altering the molecular structure of oil either to produce products intended not for motor fuel but primarily for other purposes, or other products intended primarily for motor fuels but essentially different in characteristics

from present cracked gasoline of the characteristics now produced by the licensees of Gasoline Products Co. and/or licensees of the Standard Oil of Indiana; for example with respect to its knocking power, carbon solvent power or other chemical property aside from molecular weight).

* * * * * * *

"It is to be noted that The Texas Company and the Standard Oil Company of Indiana maintain at great expense to themselves large technical forces to carry on extensive laboratory experimentations which will almost inevitably result to the benefit of those in a position to share the fruits of their endeavor.

"While under our agreement with The Texas Company we can offer our old licensees the sub-licenses referred to above at a two cent rate, it does not permit of so low a sub-license charge being made to our new licensees and the contracts entered into subsequent to January 26, 1923, all of which include these additional rights, are all on a ten cent royalty basis. We would therefore be giving you a corresponding advantage over all those whose contracts were signed following the date of The Texas Company agreement.

* * * * * *

In extending to its licensees immunities under patents of New Jersey, the Gasoline Products did so by letter dated October 1, 1923 (see, for example, that letter as attached to No. 34, Vol. II, p. 1357):

"We beg to advise you that on October 1, 1923, we entered into an agreement with the Standard Oil Company of New Jersey under which we have obtained certain rights and immunities for the licensees of the Cross Process.

"We hereby grant you *without additional royalty* charge, a sub-license under the patents now or hereafter owned or controlled by the Standard Oil of New Jersey and/or the Standard Development Company (a corporation of Delaware and a patents-holding subsidiary of the Standard Oil of New Jersey) provided however:

(a) That the patent or divisible interest therein is now owned or shall be acquired prior to January 1, 1937; or

(b) That the patent or divisible interest therein shall hereafter be acquired and shall be based on an invention made within 10 years of the date hereof:

for the operations which you are now authorized to conduct under the terms of your license contract with the Gasoline Products Company for the use of the Cross Process and defined as follows:

* * * * * *

"This license is supplementary to and terminates with the license heretofore granted you under the Cross patents.

"By the completion of this arrangement with the Standard Oil of New Jersey, we have now provided you full immunity from suit from The Texas Company, the Standard of Indiana and the Standard of New Jersey for the operation of the Cross cracking process and without any payment by you other than that provided for in your original contract.

"We have deemed such an arrangement necessary for the full protection of our licensees and we believe that we have thus relieved you from an uncertainty which could not otherwise help but exist in a patent situation so involved as that covering the cracking art."

The Gasoline Products licensees derived an important tangible benefit from the rights obtained by Gasoline Products from Indiana and Texas; the Cross units constructed after the settlements were more than twice as profitable to operate as the original synthetic crude type of Cross units. This was due, as stated in the above quoted circular letter of May 18th, to the addition of the "highly efficient type of tower wherein the synthetic crude is distilled by its own contained heat, and benzine, recharging stock and fuel oil thus directly produced from the cracking unit." The petitioner's witness, Cook, testified that the old units originally installed made a profit of 24.4¢ per barrel of charging stock and that the improved units, installed immediately after the settlements, made a profit of over 51¢ per barrel, in each case after deducting the royalties paid. (Vol. II, pp. 808-811, Exhibits 293 and 294, Vol. II, p. 845).

Following the settlements, Gasoline Products made its standard rate of royalty to new licensees ten cents, instead of six cents, per barrel of charging stock, but the increase in profit per barrel under the improved operation, made possible through the settlements, was more than seven times the increase in royalty rate.

It is worthy of note that none of the primary defendants, at any time, attempted to surround the fact that they made the various agreements with any secrecy but, on the contrary, gave wide publicity to the situation, and copies of the contracts were sent to the Department of Justice and Federal Trade Commission. (Vol. II, pp. 900, 915, 997).

The Pleadings:

The petition* (Vol. I, p. 1), filed on June 25, 1924, alleges (pp. 7-9) that cracking processes, in general, were very old, and that the primary defendants own numerous patents "covering minor improvements in processes and apparatus for the manufacture of cracked gasoline" which, however, "in all substantial respects are the same processes as those known and employed long prior to the application for or issuance of any of their said patents" which, "if valid at all, constitute no or but slight improvements in the art".† And the petition "alleges that the procuring and treating of said patents and asserted patent rights by the defendants as valid patents and patent rights covering and controlling said processes for cracking gasoline is but a device to lend color of legality to the hereafter described combination, conspiracy and monopoly". Having thus attempted to brush aside the

*A supplemental petition was subsequently filed bringing in Joseph H. Adams and the M. W. Kellogg Company as defendants. The decree entered by the Court dismissed the petition as to these defendants, and the Government took no appeal. So the supplemental petition and the proceedings thereunder are not included in the Transcript.

† Neither the Master nor the District Court sustained the Government as to these points, see pages 33-39, 48, 96-99, *infra*.

patents which formed the subject matter of the various contracts, the petition next proceeds to describe the "combination, conspiracy and monopoly" as follows (Vol. I, p. 10):

> "The primary defendants, seeking to restrain and monopolize the interstate and foreign trade and commerce of the United States in gasoline, kerosene, and other products of petroleum and to realize huge profits by extorting from all concerns engaged in the manufacture of cracked gasoline large sums in the guise of royalties, and to impose on all concerns so engaged onerous and oppressive conditions designed to insure to said defendants a monopolistic control of such trade and commerce, have made and entered into, one with another, a series of agreements (herein called primary agreements) whereby alleged rights were conveyed to each other under their respective patents and asserted patent rights and their patents and asserted rights were effectively pooled.* By granting rights under prospective as well as existing patents provision was made for extending the combination and monopoly beyond the life of any patents now owned by the defendants. Each thus protected its patents and asserted rights against attack by the others and they were enabled to present a solid front to all manufacturers of gasoline who were compelled by competition to avail themselves of the economies resulting from the use of the cracking process.
>
> "Said agreements provide for the payment of heavy royalties ranging from a half of a cent to a cent and a quarter per gallon on gasoline produced by the cracking process for domestic consumption. These charges, included by defendants as a part of their cost of manufacture, have had the effect to burden and restrain interstate and foreign commerce in the above-mentioned commodities by increasing the price thereof. In addition, numerous onerous and oppressive covenants and conditions are included in said agreements which directly impede and restrain such trade and commerce by restrict-

* No patents or rights have been "pooled". That is, none of the parties have assigned their United States patents to a common holder, nor to any one; nor have exclusive rights been granted; nor has control of the patents been vested in anyone. Each party retains full rights to grant licenses under its own patents on any terms it may desire.

ing the production of such commodities and by securing to certain of said defendants, more especially the Standard Oil Company of Indiana, a virtual monopoly* of the trade and commerce therein in particular territories. Said primary agreements not only purport to convey manufacturing rights but also authorize the respective licensees to grant sublicenses thereunder containing like onerous restrictions and provisions.

"Numerous other manufacturers of gasoline and other petroleum products, finding it necessary to employ the cracking process† in order to compete with their rivals, and fearing to incur the hostility of the primary defendants so banded together by employing such process without their license, have accepted from such primary defendants licenses under the patents and asserted rights which have been pooled as aforesaid, in and by which they have agreed to pay to such primary defendants huge royalties as aforesaid, and have submitted to the numerous onerous and oppressive covenants and conditions hereinabove mentioned. Each manufacturer receiving such a license has become a party to the unlawful combination and monopoly, has estopped itself from hereafter questioning the validity of the patents under which it is licensed, and in a majority of instances such licensees have reciprocally agreed to license the primary defendants under any patents relating to the cracking art which they have or may obtain in the future."

Then follows a list of the seventy nine contracts above reviewed. Those numbered‡ 4, 5, 12, 15, 21, 31, 33, 55,

* That it obtained no such monopoly, see pages 44-45, 90-96, *infra*.

† That is, finding it necessary to use what these primary defendants created. There are *other* processes, some of them very extensively used by non-licensees of the primary defendants (Vol. II, p. 868), which they might have used, but they prefer those of these primary defendants.

‡ Of these agreements, only those numbered 31, 55, 74 to 79 are cross-license agreements between primary defendants, and are the only ones which empower any party to grant licenses or immunities under patents of the other party. There was a license from Gasoline Products to Atlantic Re-

73 to 79, being those to which the primary defendants are the sole parties, are designated as "primary agreements" and it is alleged (Vol. I, p. 21) that

> "These agreements together constitute an effective pooling arrangement* between these primary or patent-owning defendants whereby they have restrained and monopolized interstate and foreign trade and commerce in the commodities hereinbefore described and have provided for the perpetuation of such restraint and monopoly even beyond the life of their existing patents."

Then follows (Vol. I, pp. 25-39) a list of "the restrictive covenants" in these agreements which are alleged to "go far beyond what is necessary to protect the legitimate rights of defendants under their patents, even assuming the adequacy of such patents to cover the above-described cracking processes, which is not herein conceded"—but also not denied.

There are no price restrictions in any of the agreements; the "restrictive covenants" complained of are divided, in the petition, into Classes, as follows:

Class A. Restrictions as to sales of gasoline made under license from Indiana in the states in which the Indiana Company does a retail marketing business. None of these restrictions now exist (Vol. II, pp. 739-756). They were in licenses granted by Indiana acting entirely alone and independently, and under its own patents only; they are discussed at pages 63-65, *infra*.

Class B. Options to purchase a part of the gasoline made under license from Indiana in the states in which the latter does a retail marketing business. These,

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fining Company, dated October 9, 1924, which authorized Gasoline Products to grant licenses for the Cross process under certain Lewis patents; a copy of that license was attached to answers to the Government's questionnaire but was never introduced in evidence, probably by oversight.

* Though none but non-exclusive licenses have been granted.

again, are options to Indiana only, connected with licenses under its own patents and have now been waived by Indiana (Vol. II, pp. 736-8, 756-762); these are discussed at pages 41-42, 70, 100-105, *infra*, and constitute the only one of these enumerated restrictions which the District Court found illegal.

Class C. Restriction on the quantity of product authorized to be produced, or quantity of charging stock authorized to be treated, under a license (this appearing in thirty licenses, all but four of which were granted by Gasoline Products, these four, Nos. 36, 49, 64, 65, being licenses granted by New Jersey and, in two of the New Jersey licenses, Nos. 36 and 49, an increase in royalty rate as production increases). In imposing this restriction each of these companies acted independently of the other and of all others; the restriction was not imposed as a result of any agreement to impose it. This is discussed at pages 66-69, 133-6, *infra*.

Class D. Restrictions against exporting to foreign countries, gasoline produced under license here. All of the fifteen licenses in which this restriction is alleged to appear were licenses granted by Indiana acting alone and independently of any of the other defendants and before there were any cross-licenses between any primary defendants. These are discussed at pages 56-58, *infra*.

The petition alleges (Vol. I, p. 40) that

"The restraints, burdens, and prohibitions placed upon interstate and foreign trade and commerce in the commodities mentioned by the agreements herein described, which agreements have been entered into by the several defendants with the full knowledge of the purpose of the plan and of the other agreements made and to be made in furtherance thereof,* constitute and are a

* See pages 54-55, *infra*.

combination and conspiracy in restraint of interstate trade and commerce in said commodities, and an attempt to monopolize and a monopolization of such trade and commerce, in violation of sections 1 and 2 of the act approved July 2, 1890, entitled 'An act to protect trade and commerce against unlawful restraints and monopolies.'"

The prayer of the petition (Vol. I, pp. 41-42) is that it be decreed

"1. That the defendants, in the manner and by the means hereinbefore described, have been and are engaged in combinations and conspiracies" etc.

"2. That the system of contracts existing between the defendants, as herein alleged, were entered into in pursuance of and constitute and evidence the unlawful combinations, conspiracies, attempts to monopolize and monopolizations, and are contracts in restraint of interstate and foreign trade and commerce in violation of the said act of July 2, 1890, and the said contracts *be declared null and void as to each and every part thereof which provides:*

(*a*) That gasoline, kerosene, or other products manufactured from petroleum or petroleum products shall not be sold or shipped from one State or Territory of the United States, or the District of Columbia, to another State or Territory of the United States or the District of Columbia. [This refers to the 'Class A restrictions' of certain Indiana licenses, p. 28, *supra;* as to these see pp. 63-65, *infra*].

(*b*) That gasoline, kerosene, or other products manufactured from petroleum or petroleum products shall not be sold or shipped from a State or Territory of the United States or the District of Columbia to a foreign country or from a foreign country to a State or Territory of the United States or the District of Columbia. [This refers to the 'Class D restrictions' of certain Indiana licenses, p. 29, *supra;* as to this see pp. 56-58, *infra*].

(*c*) That gasoline, kerosene, or other products manufactured from petroleum or petroleum products may be sold or shipped from one State or Territory

of the United States or the District of Columbia to another State or Territory of the United States or the District of Columbia, only subject to the condition that a third party shall have an option for the purchase of a portion thereof. [This refers to the 'Class B restrictions' of certain Indiana licenses, p. 28, *supra;* this is the only particular, specified in the prayer, which was sustained by the District Court, see pp. 41-42, 70, 100-105, *infra*].

(*d*) That gasoline, kerosene, or other products manufactured from petroleum shall not be produced by any company in excess of a maximum amount provided in the contract. [This refers, inaccurately, to certain of the 'Class C restrictions' in 26 Gasoline Products and 4 New Jersey Company licenses, p. 29, *supra;* as to this see pp. 66-69, 133-136, *infra*].

(*e*) That the royalties for the manufacture of gasoline, kerosene, or other products manufactured from petroleum shall increase in proportion to the amount of such commodities produced, thus in effect placing a limitation upon the amount thereof which may be produced. [This refers to certain 'Class C restrictions' occurring in only two licenses, Nos. 36 and 49, granted by the New Jersey Company, p. 29, *supra;* as to this see pp. 66-69, 133-136, *infra*].

"3. That the defendants and each of them, their officers, directors, or other agents, be perpetually enjoined and restrained *from further observing or enforcing the hereinabove-described restrictive covenants* of the aforesaid contracts, and from thereafter making or entering into any contract or contracts containing like provisions, and from enforcing, carrying out, or observing any other provisions of said contracts the purpose, tendency, or effect of which is to restrain or monopolize interstate or foreign trade and commerce in gasoline, kerosene, or other petroleum products.

"4. That petitioner have such other further and general relief as the nature of the case may require and the court deem just."

The several defendants answered, denying in detail all charges of restraint of trade, combination, conspiracy, etc. (Vol. I, pp. 44 to 399).

The Master's Report:

The cause having been referred to the Master "to take and report to the Court the evidence adduced or offered by the Petitioner and the Defendants respectively, together with his findings of fact and conclusion of law", testimony was taken before the Master between October 12, 1925 and December 16, 1926, and the cause was argued before him on May 16 to May 20, 1927, at which time briefs were filed by the several parties.

The Master then filed his draft report, and, on November 15, 1927, heard objections to that draft (Vol. I, p. 428).

On December 7, 1927, the final report was filed, together with copies of all of the testimony, exhibits, briefs and oral arguments before the Master (Vol. I, pp. 424-664).

The Master reviews, first, the underlying conditions in the gasoline industry, the great demand which arose for larger amounts of gasoline and the resulting activity of inventors to supply that demand (Vol. I, pp. 435-7). He then lists the patents of the several primary defendants (Vol. I, pp. 437-442) and finds (p. 443) that

> "Each of the primary defendants now maintains and since the beginning of the development of their processes and apparatus for producing motor fuel, have maintained their own laboratories and research departments. During that period they have been and now are engaged in an energetic competition to make new discoveries and improvements in this highly technical art. There has been a keen rivalry among them to acquire new inventions by independent inventors, in which in the judgment of their technical advisors there was practical merit."

The Master then refers to the interrogatories and the defendant's answers thereto (Vol. I, pp. 443-444) and says:

> "Using the answers to the interrogatories, the Petitioner has selected twenty-three patents, which, by the answers to interrogatories, are used not only by the primary defendant owning the patent, but also by one or more of the other primary defendants (licensees thereunder).

"As to these twenty-three patents the Petitioner has introduced prior art for the purpose of impeaching their validity and scope."

The Master lists these twenty-three patents (Vol. I, pp. 445, 446) and then, as to the remaining patents, says (Vol. I, p. 447):

"All of the other patents of the defendants not put in issue by Petitioner have the presumption of validity for the scope of the claims as set forth and also the presumption of utility arising out of the patent grant. *There is nothing in the Record which supports a contention that they are only 'minor improvements' or of little importance in the industry.* And although not now admittedly used in the commercial processes of any of the defendants other than that of the patent owner there is no ground to hold that they are not reasonably likely to be used in future developments of the art, or that the defendants had any unlawful motive in procuring the grants of such patents or acquiring title to them, or in granting or accepting licenses for the use thereof."

In defining the issues with reference to the patents, the Master said (Vol. I, p. 449):

"The issues, so far as the scope of the patents is concerned, as the Master conceives, are:

(a) Are the patents for only 'minor improvements' or of little importance in the industry, and not now used in the commercial processes of any of the defendants, and not reasonably likely to be used in future developments of the art?

(b) Are the royalties and conditions imposed by the contracts (licenses) reasonably within the reward which the respective patentees, by the grant of the patents, are entitled to secure?

(c) Have the defendants, by their contracts, 'pooled' their patents or 'combined' them for the purpose or with the effect of intimidating or restraining others from entering into the business of manufacturing cracked gasoline unless they consent to pay onerous royalties upon negligible patents?"

The Master then discusses the nature of petroleum (Vol. I, pp. 449-453) gasoline (p. 453) cracking in general (pp. 453-457) and the general practice in oil refining (pp. 457-464):

Then, the report takes up (p. 465) Indiana's

> "Burton processes, of which there are two methods, namely: the Burton shell stills and the Burton tube stills, with or without bubble towers"

The Burton "shell stills" are next described in detail (pp. 465-469; see testimony* Vol. V, pp. 3043-55) and then the "tube stills" with bubble towers (pp. 469-472; see testimony, Vol. V, pp. 3113-3119, 3147). Then the Master examines the several patents of Indiana, the later ones being for improvements on and additions to the process of the original Burton patent, and makes findings as to what they essentially cover (Vol. I, pp. 472-489; see testimony Vol. V, pp. 3063-6, 3092-4, 3110, 3113, 3128, 3144, 3146-50, 3172-5, 3177, 3184, 3188, 3233-5, 3271, 3273).

New Jersey's Tube-and-Tank process is then described (Vol. I, pp. 490-492; see testimony, Vol. V, pp. 3224-8, Vol. VI, pp. 3369 *et seq.*, Vol. II, pp. 962-3) and then each of New Jersey's Ellis patents are examined in detail (Vol. I, pp. 492-497; see testimony, Vol. V, pp. 3224, 3261-6, Vol. VI, pp. 3319-24, 3335-7).

The Gasoline Products' Cross process is then described (Vol. I, pp. 497-500; see testimony, Vol. V, pp. 3224-32) and that Company's Cross patent referred to by the Government is then examined (Vol. I, p. 500).

The Texas Company's Holmes-Manley process is then described (Vol. I, pp. 500-503; see testimony, Vol. V, pp. 3195-3203) and that Company's various patents are dis-

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* We understand that the finding of facts by the Master, who saw and heard the witnesses, will be accepted if they have support in the evidence. *Adamson* v. *Gilliland*, 242 U. S. 350; *Mason* vs. *United States*, 260 U. S. 545, 556. Accordingly, in our analysis of the Master's report we shall insert references to the supporting evidence.

cussed in detail (Vol. I, pp. 503-515; see testimony, Vol. V, pp. 3324, 3237-44, 3245, 3248-9, 3253, 3257, 3259-61, Vol. VI, pp. 3677 *et seq.*).

Each of the prior patents and publications (about sixty in number) cited by the Government is then discussed in great detail (Vol. I, pp. 515-606); and as to each of those various "references" the Master, in addition, states his findings which are of interest as showing how far the prior patents and publications fall short of disclosing the defendants' inventions and also as emphasizing that those inventions are of real substance and merit. These findings are summarized in the Appendix to this brief (pp. 140-147, *infra*).

The Master, as shown by the excerpts from his report, collected in the Appendix, has specifically found as to each element of art cited by plaintiff that it has no bearing upon the novelty of any of defendant's patents against which it was urged. These findings, being based upon a specific weighing of the credibility of the experts by the Master who heard and saw the witnesses, are conclusive so far as there is evidence to support them—and there is such evidence, as we have indicated in connection with each excerpt.*

As to the utility of the defendant's patents, the Master found (Vol. I, p. 608; and see testimony, Vol. I, p. 3043) that

> "The Burton process of the Standard Oil Company of Indiana went into operation in the latter part of 1912 and was the first process for producing cracked gasoline in large quantities.
>
> "In producing this successful commercial process, the Company had expended, in research and experimental work, and in the erection of the first battery of pressure stills, a sum largely in excess of a million dollars. It doubled the amount of gasoline which could be produced from a given amount of crude petroleum."

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* We skip pages 613 to 644 because they deal with the alleged fraud in the procurement of the Adams patents and the alleged suppression of the Fleming process, on both of which issues, which were raised by the supplemental petition, the decisions of the Master and the District Court were against the Government. The Government took no appeal.

As to the Texas Company's Holmes-Manley process, the Master found (Vol. I, p. 610; and see testimony, Vol. V, p. 3195).

> "This Holmes-Manley continuous cracking process is almost universally agreed to be the highest embodiment of the art of bulk pressure distillation. Whereas, the Burton and Clark, and Clark processes enabled the operator to handle 20,000 gallons of cracking-stock in a cycle of two days (or about 10,000 gallons a day) with the result of obtaining thirty to thirty-five per cent. of gasoline, the Holmes-Manley process puts through approximately 70,000 gallons per day, or seven times as much as the Burton-Clark process, and makes around forty per cent. of gasoline and runs for a period of fifteen to thirty days and frequently longer before having to be shut down because of coking."

As to the New Jersey Company's Tube-and-Tank process the Master found (Vol. I, p. 611; and see testimony, Vol. II, p. 961; Vol. V, p. 3231):

> "The utility of the tube and tank commercial process of the New Jersey Company is shown, and as said above, imports the utility of the patented inventions embodied in its construction. The importance of the industrial operation of the commercial process lends great importance to the patents covering the industrial embodiment."

As to the Gasoline Products Company's Cross process, the finding was (Vol. I, p. 611; and see testimony, Vol. V, pp. 3226-30; Vol. VI, p. 3634):

> "The Doctors, Roy Cross and Walter Cross, in developing the Cross process of the Gasoline Products Company, took a distinct step forward in the gasoline refining art, and they have gone further than any other of the inventors in the utilization of very high temperatures and very high pressures, which is in line with the general trend of the art of destructive distillation. Their patents are a contribution of great importance to the patent art relating to the refining industry."

As to the desirability and necessity that each of the primary defendants and its licensees should, for the safe practice of its own characteristic variation of the fundamental heat-and-pressure process, have licenses under the patents of the other, the Master found as follows:

"The defendants, The Texas Company and the New Jersey Company, both produce this product [that of the Indiana Company's Burton patent No. 1,167,884] under their licenses from the Standard Oil Company (Indiana) and it is shown in the record that it is a product of great utility" (p. 476; and see testimony, Vol. V, pp. 3092 *et seq.*, and answers to interrogatories, Vol. IV, pp. 2188, 2135).

"However narrowly the claims of [Indiana Company's Palmer patent No. 1,187,380] may be construed, one cannot study the patent without a strong impression that it was of the utmost importance to the developments at that time being carried on by the Standard of Indiana, and compelled careful consideration in the development work of all of the primary defendants. It certainly cannot be included in the general condemnation in the Petition of all of the patents of the primary defendants as of 'minor importance'. In the hands of a militant competitor, all of the primary defendants at the time it issued from the Patent Office, and ever since, might well have viewed this patent with considerable anxiety" (p. 488; and see testimony, Vol. V, pp. 3233-7).

"The early filing dates of the Ellis patents made it highly important for that Company [The New Jersey Company] to acquire them and they were fortunate in doing so" (p. 497; and see testimony, Vol. V, pp. 3224-6, 3261-4).

"These difficulties [in the Gasoline Products Company's Cross process] were overcome by the expedient first suggested by Ellis" owned by the New Jersey Company (p. 498; and see testimony, Vol. V, pp. 3224-6, 3261-4).

In the Texas Company's Holmes-Manley process "gas is removed from the top of the drum as in the Burton process" and "the charging stock which is substantially the same as charging stock for the Burton process" (p. 501; see testimony, Vol. V, pp. 3195-3203).

"It is therefore probable that if any of these patents [Hall patents owned by Texas Company] become involved in litigation with an infringer, they will have to be given the scope accorded to a pioneer" (p. 505; and see testimony, Vol. VI, p. 3681).

"It is very certain that no one could practice the commercial process of either of the primary defendants without running foul of the patents on indispensable features embodied in it" (p. 607).

"The Texas Company's patents relate to its commercial process known as the Holmes-Manley. In this process it uses some, if not all, of the disclosures of its own patents, but also some Burton claims" of Indiana (p. 465).

The Texas Company's "commercial cracking-still embodies in its structure and operation, the inventions of a number of the patents of the defendants. A number of its features are disclosed in the various patents to Adams; others are in the patents issued to Manley, to Holmes, to Behimer, and to Holmes and Manley jointly. It embodies also some of the claims of Clark, Humphreys, Burton (1,160,689) Lewis & Cooke, Burton & Clark (owned by the Standard of Indiana) and some of the claims of Ellis (owned by the New Jersey Company) (p. 610; and see testimony, Vol. V, pp. 3242-3, 3248-9, 3253, 3257, 3259, 3627, 3131-8, 3195, 3201, 3188 and answers to interrogatories, Vol. IV, p. 2180).

And, summarizing this branch of the inquiry, the Master finds (Vol. I, pp. 611-612)—

"From all the evidence the Master finds that the inventions of the patents owned by each of the primary Defendants, respectively, are of great utility; that the respective groups of patents owned by the several primary Defendants relate to the same art and general

subject matter and the domain covered by each group is so adjacent to the domain covered by each of the other groups as that wasteful litigation was likely to be provoked between them and their development of competing refining processes hindered and perhaps frustrated to the detriment of the public interest."

* * * * * * *

"The Special Master finds that with the exception of not more than five or six, the patents owned by the 'Primary Defendants' are not for 'minor improvements' in processes and operations for the manufacture of cracked gasoline, but are for substantial, valuable and highly useful improvements, which have made possible the manufacture of cracked gasoline in commercial quantities, have increased the yield of gasoline per barrel of crude many times over and have enabled the supply of gasoline to meet the ever increasing demand.

"That the processes employed by Defendants for cracking gasoline by the application of super-atmospheric pressure and high temperatures, described in the letters patent of the Primary Defendants, are not, in all substantial respects, the same processes as those known and employed long prior to the application for, or issuance of any of their said patents, but were for new and useful and patentable inventions, the utility of which has been shown by the Petitioner itself.

"The Special Master finds that the procuring and treating of said patents as valid by the Defendants, is not a device to lend color of legality to any combination, conspiracy or monopoly, but that said patents were procured in the regular and lawful manner, and were acquired by the Defendants in good faith, for the laudable purpose of producing a larger proportion of gasoline from a given amount of crude petroleum, and for supplying the critical demand in the United States for more gasoline than could be produced by the straight distillation method."

The Master then discusses, at pages 645 to 660, the seventy-nine agreements, upon which this action is based.

He first reviews (pp. 645-650) Indiana's early licenses in which there were restrictions on sales by the licensees

in the states in which the Indiana did a retail marketing business. But the Master points out that "to sustain its charge of a conspiracy to create a monopoly and to restrain interstate trade and commerce, the petitioner mainly relies upon three reciprocal agreements entered into between the primary defendants in the cause", which "are Exhibits 31, 55 and 74," (p. 650).

As to the *Texas-Indiana agreement No. 31* (see p. 11, *supra* and 69, *infra*, and our discussion of it at pp. 100-105, *infra*) the Master found as follows (Vol. I, pp. 651-652):

> "A comparison of some of the claims of Adams No. 1,327,263 and Burton No. 1,049,667 will readily convince anyone of the seriousness of the conflict. The attorneys for the Indiana Company knew that Adams' application date was prior to the application date of Burton and they did not know how much farther back Adams would be able to carry his date of invention. The attorney for The Texas Company, after careful study, reached the conclusion that in some of its features the Holmes-Manley process did infringe some of the patent rights of the Indiana Company. The result of litigation might have been that each company was infringing some patent right of the other and that neither could continue to operate its own process without the consent of the other. The two companies were confronted with a choice between a settlement and litigation. Litigation would paralyze progress in the industry and the profits and damages which might be recovered in such an action ran into large figures and would inevitably cause a serious financial loss to one or the other of the companies. Litigation, under such circumstances would have been very unwise if any kind of reasonable settlement could be arrived at.
>
> "It was perfectly obvious that the sensible thing for both to do was to exchange immunities and grant reciprocal licenses under their respective patent rights if they could agree upon terms."
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> * * * * * *
>
> "Accordingly, Contract No. 31 was entered into between the two companies. The contract was advantageous to both of the companies, and was advantageous to the public because it removed obstacles to the develop-

ment of the industry and resulted in the production of gasoline instead of the production of litigation. Subsequently, the Indiana Company erected a Holmes-Manley plant. By this contract the Licensees of the Indiana Company obtained immunity under the Texas patents without paying any additional royalty.

"As the Burton process and the Holmes-Manley process were at that time the only two commercial cracking processes in the field, and as there were fifteen or twenty refining companies practicing the Burton process, the execution of Contract 31 cleared up the entire industrial situation from a serious threat of complications, interruptions and liabilities. The general public was also benefited because it was not at all interested in patent controversies or litigations but only in an ample supply of gasoline at reasonable prices. By the development of the Burton process and the Holmes-Manley process, and the settlement of the controversy between the owners of the two processes, the public had an ample supply of gasoline at reasonable prices, and but for these circumstances undoubtedly there would have been a great shortage of gasoline and the public would probably have paid double what it did pay for the commodity.

"By the contract there was no limitation upon the perfect freedom of action and perfect control of each over its own patents and processes. There was no restraint upon the contracts of either. Each was free to execute as many licenses of its own process with immunity from any attack from the other as it might choose. There was no restraint of competition between the two companies and there was no agreement relative to either the amount of production or the price at which gasoline could be sold."

As to the option clauses contained in this Agreement No. 31, the Master found (Vol. I, pp. 653-4; and see our discussion of this clause at pp. 70, 100-105, *infra*):

"In 1913 and 1914 the Standard Oil Company of Indiana had very little production of crude oil but depended upon the purchase of crude oil from oil producing companies. With the rapid increase in the consumption of gasoline, the development of the processes

for getting more gasoline out of a given amount of crude and the demand for increased quantities of crude, the Standard Oil Company of Indiana was concerned about obtaining a reliable and regular supply of crude which would enable it to fulfill its contracts for the sale of gasoline. Later on it acquired interests in certain producing companies such as the Dixie Oil Company, the Midwest Refining Company and the Sinclair Pipe Line Company, for the purpose of obtaining crude [See Vol. II, p. 1025].

"These considerations led the Standard Oil Company of Indiana to provide against the consequences of a lack of crude in making Contract No. 31, and it was for this purpose that there was inserted in the contract an option to the Standard Oil Company of Indiana on certain contingencies to purchase a certain proportion of cracked gasoline manufactured by The Texas Company in the states included in the retail marketing territory of the Standard Oil Company of Indiana.

* * * * * *

"The condition upon which the option depended did not then obtain. Neither company then expected that it would obtain at any time. The condition for the exercise of the option has never happened and it is not expected that it ever will happen. The condition has never operated and could not operate to restrain The Texas Company in the exercise of perfect freedom to enlarge its manufacturing in the states named. Should it find it advantageous to do so and the Indiana Company should thereupon exercise the option to purchase one-third of the excess of the production of The Texas Company above 25 per cent. of the production of gasoline by the Indiana Company, the price to be paid by the Indiana Company would be precisely the wholesale price which The Texas Company could obtain from any other person.

"The option does not apply to any of the Licensees' straight-run gasoline or to any kind of gasoline manufactured by any other cracking process than the process licensed."

As to the Texas-Gasoline Products Co. Contract No. 55 (see pp. 15-17, *supra*), the Master pointed out (Vol. I, p. 655) that the Ellis patents had issued to New Jersey, that a suit

was brought on one of them against the Pure Oil Company, a Gasoline Products' licensee, and that Texas immediately recognized that it too was interested because the Ellis patent covered an "operation which is embodied in the Cross process (of Gasoline Products) in the Tube-and-Tank process of the Standard Oil Company of New Jersey and the Holmes-Manley process of the Texas Company" (p. 655). Gasoline Products Company asked Texas to contribute to the defense of the suit against the Pure Oil Company (p. 656) and Texas, on investigating the matter obtained information, through searching the foreign patents, indicating that applications by New Jersey for other patents were pending in the United States that would also cover the Texas operation (pp. 656-7). At that time one George T. Rogers, whose rights New Jersey had secured by option, had been adjudicated to be a 40% owner of the Adams patents of which Texas had believed itself to be the sole owner (p. 656) so New Jersey would have been able to grant licenses under these patents to Gasoline Products. Texas hastened, therefore, to conclude all agreements with Gasoline Products before New Jersey could do so, as Texas wanted licenses from Gasoline Products in exchange for licenses under the Adams patents (pp. 657-8). This is agreement No. 55.

At the same time, however, Texas was negotiating with New Jersey for rights under the latter's Ellis patents and for settlement of the direct and contingent liability of Texas to New Jersey as owner of a forty per cent. interest in the Adams patents and in the profits realized from operations thereunder. This resulted in Agreement No. 74 (see p. 18, *supra*, and our discussion of it at pp. 80-96, 116-122, *infra*).

As to these agreements Nos. 55 and 74, the Master found as follows (pp. 659-660):

> "Contracts 55 and 74 relieved the four primary defendants from litigation and liabilities implicit in the situation which has been above described, and from the threat of expensive and tedious litigation in which some,

if not all of them, would lose substantial rights and large investments in plants and by way of damages. The four processes, viz.: The Burton process, the Holmes-Manley process, the Cross process and the Tube-and-Tank process, stripped from any charge arising from overlapping and conflicting patents, were each offered to the refining industry without fear of litigation for infringement of the patents of the others. The industry therefore had opened to it a wide range of choice as to processes and greater freedom in the development of the cracking art.

"The conclusion of these agreements was beneficial to the public in that it removed the threat of interruption of the supply of gasoline and a consequent increase of price, and offered the prospect of a wider use of the cracking processes with a consequently larger supply, and probably reduction of prices, which, since the close of the testimony in this case, as a matter of current public history, has become a realization."

As to the charge of monopoly and restraint of trade, the Master found (pp. 612-613, and see testimony, Vol. II, pp. 868-870, 881, 882, 934-939, 993, 1002, 1022):

"In 1924 and 1925 there were, and now are, in the United States a very large number of refiners manufacturing cracked gasoline in competition with the defendants and not under license from either of the primary defendants. Neither of the defendants in this cause manufactures or controls as much as 30 per cent. of the total annual production of cracked gasoline in the United States. The aggregate cracking capacity of all of the defendants (primary and secondary) is about 55 per cent of the total cracking capacity in the United States.* The competition between each and all of the defendants is actual and genuine and the marketing rivalry is keen. The rivalry of the so-called 'Independ-

*Since the gasoline produced by cracking and that produced by distillation without cracking are the same, for market purposes, and are usually commingled and sold together, the entire gasoline capacity should be considered in arriving at percentages. The aggregate capacity for cracking under the patents here involved, of the primary defendants and their licensees, is, as the Master found, about 55% of the total

ents'—manufacturers of cracked gasoline (users of 21 competitive cracking processes)—is of such volume and the competition so extensive and widely distributed that the defendants have no control whatever over either the supply or the market price of cracked gasoline. There is no evidence whatever of any attempt or action of any kind by the defendants or any of them to suppress competition, to control supply, to fix price, or to allot marketing territory. The diversity of interests of the several defendants as it generally appears from the entire record, is such as to make any such effort—were the defendants inclined to risk such an adventure—impractical.

* * * * * *

"It cannot be said that competition in the manufacture and sale of gasoline has been, in any manner restrained or monopolized by any of the contracts in controversy or that they have such tendency. The evidence shows that the relative volume of sales of the Standard Oil Company of Indiana to the total sales in the retail territory of that company has been constantly decreasing in percentage by reason of the shipment of gasoline into that territory by its own licensees as well as by manufacturers of cracked gasoline under processes not owned by the primary defendants or either of them. The percentage of cracked gasoline to the total gasoline production of the Texas Company in 1920, was less than eight per cent; while in 1924 its cracked gasoline output had increased to more than fifty per cent. of its total gasoline production" (p. 660).

The Government had charged in its petition that the royalties were excessive. As to this, the Master found (pp. 660-664):

"The petition avers that the primary defendants, by means of the alleged combination, conspiracy and

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cracking capacity (Vol. II, p. 868). In 1925 the cracked gasoline was 25.78% of the total gasoline production (Vol. II, p. 882). If we assume production of cracked gasoline to be in proportion to cracking capacity, the production under the patents here involved would be about 14% of the total gasoline production. We find no support in the Transcript for the figures stated by the District Court, under the heading of "Volume of Business", at 33 F. (2d) 625, and Vol. III, p. 2004.

monopoly, sought 'to realize huge profits by extorting from all concerns engaged in the manufacture of cracked gasoline large sums in the guise of royalties;' that the license contracts complained of (Exhibits 1 to 79) 'provide for the payment of heavy royalties.' * * * 'ranging from a half of a cent to a cent and a quarter per gallon on gasoline produced by the cracking process for domestic consumption. These charges, included by defendants as a part of their cost of manufacture, have had the effect to burden interstate and foreign commerce in the above-mentioned commodities by increasing the price thereof'; that the secondary defendants, by the licenses 'have agreed to pay to such primary defendants huge royalties as aforesaid.'

"The evidence in the case wholly fails to support these charges."

* * * * * *

"There was no attempt by the petitioner to introduce evidence to show that the royalties reserved in the licenses were 'onerous and oppressive' or not reasonably within the reward which the respective patentees, by the grant of the patents, are entitled to secure.

* * * * * *

"That the secondary defendants are continuing to operate under the licenses is some evidence that the royalties are not onerous and oppressive. Otherwise licensees would surrender the licenses. The Master finds no evidence in the record of protests by the secondary defendants in respect to the oppressiveness* of royalties or conditions imposed by the contracts.

* * * * * *

"Considering the increase of the gain and profits in refining crude petroleum by reason of the inventions and development of the commercial processes of the primary defendants, and taking into consideration all of the evidence in the case (or lack of evidence) the Special Master finds that the royalties and conditions imposed by the contracts (licenses) are reasonably within the reward which the respective patentees, by the grant of the patents, are entitled to secure."

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* The answers of most of the secondary defendants deny that the royalties they pay are onerous and oppressive (Vol. I, pp. 150, 179, 187, 196, 205, 210, 227, 244, 268-9, 288, 293, 330-333, 342, 351, 355, 364, 384, 391).

The final findings and conclusions of law are as follows (pp. 663-4):

"Neither the defendants nor any of them have monopolized or attempted to monopolize or combined or conspired with any other person or persons to monopolize any part of the trade or commerce among the several states or with foreign nations.

"Neither the defendants nor any or either of them have entered into any contract, combination in the form of a trust, or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations.

"The defendants have not pooled or combined or united the ownership or control of patents belonging to them severally and respectively, relating to the art of producing gasoline by cracking processes.

"From a consideration of all the evidence in this cause, and of the facts above found, the Special Master states the following

CONCLUSION OF LAW.

"The equities in this cause are with the defendants and the Petition and Supplemental Petition in this cause should be dismissed for want of equity."

Government's Exceptions to Master's Report:

The Government filed a motion to recommit (Vol. II, p. 724) together with 273 exceptions to the Master's report, about 160 of which were exceptions to the Master's findings on the patents (Vol. I, p. 664 to Vol. II, p. 724).

Although these exceptions were fully argued and submitted to the Court by petitioner, no ruling was made upon them, nor did the Court in its opinion or decree pass specifically on any of them.

The opinion of the District Court:

The District Court, in June, 1929, filed its opinion (33 F. (2d) 617, and Vol. III, p. 1988), from which Judge Anderson dissented in so far as it failed to confirm the Master's re-

port (33 F. (2d) 632, and Vol. III, p. 2020). The Court, after outlining the case, held as follows:

1. The Master is affirmed in finding that the Adams patents were not obtained by fraud, and as to his holding as to the M. W. Kellogg Company (33 F. (2d) 623; Vol. III, p. 2000)—those being the matters brought into the case by the supplemental petition and as to which no appeal has been taken.

2. As to the defendants' patents and as to whether the Government may, in this proceeding, question the validity or scope of the patents granted by itself, the Court held (33 F. (2d) 623-4; Vol. III, p. 2000) that

> "* * * little need be said in view of our ultimate conclusion as to the validity of the patents. The Court is divided respecting the right of the Government to attack the validity of the patents in these proceedings. We are satisfied, however, that we may enquire into the prior art to ascertain the scope of the claims of the various patents involved.
>
> "Having made that study we conclude that: (a) all of the patents cover improvements only. (b) None of them are basic or pioneer patents. (c) All claims should be construed accordingly.
>
> "It by no means follows, however, that because the claims of a patent merely cover improvements, and must be denied a wide range of equivalency, they are unimportant or that the inventor did not make a real contribution to the art. Moreover, if a narrow patent is valid, it furnishes as sufficient a consideration for a contract based on it as would a pioneer or basic patent and it is as legitimate a subject of cross-license agreement as is a basic or pioneer patent.
>
> "Without discussing each patent at length and in detail, we will content ourselves with a statement of our conclusion. *For the purposes of this suit, we are not willing to disturb the Master's finding that the patents are valid.*"

3. As to the validity of the agreements, the Court held:

(a) That the option provisions* of the Indiana-Texas agreement, No. 31 (pp. 11-14, 41-42, *supra*) violate the Sherman Law (33 F. (2d) 629-630; Vol. III, p. 2014). This is obviously based upon an erroneous understanding of the terms of the option; it is discussed by us at pages 100-105, *infra*.

(b) That provisions in various of the agreements that the licensee admits the validity of the patents, issued and to be issued during the terms of the agreement, are invalid† (33 F. (2d) 630; Vol. III, pp. 2014-5). These are discussed by us at pages 104-110, *infra*.

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* These were discussed, at length, at the argument of the case before the District Court and what was thereupon done is thus stated in the opinion of the Court (33 F. (2d) 629; Vol. III, p. 2014):

> "The defendants asserted, however, that this covenant never has been and never will be enforced, and therefore is of no significance. When their statement was made on oral argument, the Court suggested, in order to test the good faith of defendant's assertion, that the parties agree to its elimination. Defendants accepted the suggestion and filed with the court an agreement in the nature of a waiver [appearing at Vol. II, pp. 736-8, 756-762] of this provision of agreement 31. To this action, the petitioner strenuously objected, insisting that defendants should not be permitted to avoid the effect of this litigation by an 11th hour withdrawal from its previously asserted right to this contract. Were this the only provision objected to, we would view the litigation as happily ended. But there are other agreements which are attacked and, if the attacks be sustained, a decree for petitioner must necessarily follow."

† At the argument before the District Court, it was stated by defendants that the provisions were nothing more than an expression of what is implied by law in the acceptance of any license. And, as an evidence that they were not intended or relied upon as meaning anything more than that, the defendants eliminated these provisions from the licenses, leaving only the inevitable admission of validity implied by law. See Vol. II, pp. 732-736.

(c) That provisions fixing the royalties to be charged for licenses, and a division of the same between two or more primary defendants (agreements Nos. 55, 73, 74 and 75) violate the Sherman Law, they being held to amount, in effect, to price fixing agreements (33 F. (2d) 630-632; Vol. III, pp. 2016-9). These are discussed by us at pages 110-122, *infra*.

We consider this opinion at page 96, *infra*. At the moment we are merely pointing out, by way of recital, the conclusions upon which the Court founded its decree.

The decree:

From the foregoing it appears that the petition prayed that "the said contracts be declared null and void *as to each and every part thereof which provides*" five listed things (pp. 30-31, *supra*), and that of these the court held only the one relating to options of purchase* and listed as (c) under paragraph 2 of the prayer, to violate the Anti-Trust Acts. When it is recalled that the Court stated in its opinion that "were this [the option provision] the only provision objected to we would view the litigation as happily ended", it is remarkable that *the decree struck down not only this particular provision but the agreements as a whole*. The proof showed that the option had never been exercised, that its purpose was legitimate, and not monopolistic and an agreement waiving it had been filed with the Court upon its suggestion.

The decree (Vol. III, p. 2020) dismisses the petition and supplemental petition as to Adams and the M. W. Kellogg Company.

It then decrees that

> "the agreements entered into by and between the primary defendants, described particularly in the petitioner's petition, be, and they are hereby, declared to be null and void,"

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* This, and the clauses acknowledging the validity of the licensor's patents and those arranging a division of royalties furnish the sole grounds for specific criticism by the Court (pp. 100-122, *infra*).

etc., and that

> "the agreements entered into by the primary defendants with the various secondary defendants, *pursuant to and in accordance with the said void agreements* of the primary defendants, and described particularly in petitioner's petition, are hereby declared to be null and void." etc.

The decree does not otherwise identify the agreements which it was intended to hold void. The petition, however (Vol. I, p. 21), lists agreements Nos. 4, 5, 12, 15, 21, 31, 33, 55 and 73 to 79 as "primary agreements." But, of these numbers, 4, 5, 12, 15, 21 and 33 are not cross-licensing agreements permitting each party thereto to grant sublicenses under the patents of the other; no licenses were granted "pursuant to and in accordance with" those agreements—to use the words of the decree; and those numbered 73, 77, 78 and 79 related to foreign patents. The Court, in its opinion (33 F. (2d) 624; Vol. III, p. 2001) stated that

> "Seventy-nine agreements are involved. They may be referred to for convenience sake as cross-licensing and sub-licensing agreements."

This is not correct as to the seventy-nine agreements. There were only five cross-licensing agreements under United States patents (pp. 19-20, *supra*); only those five provided for the granting of sub-licenses. Fifty of the seventy-nine agreements (p. 55, *infra*) were merely licenses from one patent owner to a refiner and did not involve cross-licensing, nor any provisions as to sub-licensing, nor any rights under patents other than those of the licensor.

In a matter of such large consequence to all concerned, we may justifiably complain that both opinion and decree speak in such loose terms.

We take it, however, that the primary agreements intended to be held void are those, relating to United States patents, enumerated at pages 19-20, *supra*, namely, Nos. 31, 55, 74, 75 and 76.

The effect of the decree would seem to be that all secondary defendants are left as bald infringers of the primary defendants' patents, and all primary defendants (except Gasoline Products which does not itself manufacture) are left as direct infringers of each others' patents.

Specification of the Assigned Errors.

The assignments of error upon which the primary Defendants will rely are as follows (Vol. III, p. 2026):

The Court erred:

1. In refusing to dismiss the petition and supplemental petition as against each of these defendants.

2. In refusing to dismiss the petition and supplemental petition as against each of these defendants upon the facts found.

3. In decreeing that the agreements entered into by and between the primary defendants, viz., these defendants, as particularly described in the petitioner's petition, are null and void and in violation of the act of Congress of July 2, 1890, and the acts amendatory thereof, commonly known as the Sherman Anti-trust Act.

4. In decreeing that the agreements entered into by the primary defendants with the various secondary defendants pursuant to and in accordance with the said agreements between the primary defendants, and described particularly in the petitioner's petition, are null and void and in violation of the act of Congress of July 2, 1890, and the acts amendatory thereof, commonly known as the Sherman Anti-trust Act.

5. In decreeing that the primary defendants and each and all of their respective officers, directors, servants, agents and employees, be enjoined and restrained from carrying out said agreements.

6. In decreeing that the primary defendants and the secondary defendants and each and all of their respective officers, directors, agents, servants, and employees, and all persons acting or claiming to act on their behalf, be perpetually enjoined and restrained from further executing or performing said agreements.

7. In failing to decree that those agreements, described in the petition, between the primary defendants and between any primary defendant and any secondary defendant relating to the foreign patent rights of any of said primary defendants are not contrary to the Sherman Act and are valid.

8. In refusing:

(a) to overrule the exceptions of the United States to the Special Master's report,

(b) to approve the Special Master's report.

9. In ruling, over defendants' objection and exception, that the United States in this proceeding might attack and question the validity or scope of defendants' patents and in permitting over defendants' objection and exception the introduction by the United States of evidence purporting to show lack of patentability and limitation and scope in respect of defendants' patents.

ARGUMENT.

POINT I.

The agreements were necessary, reasonable and made in good faith.

The Master so found (pp. 37-47, *supra*); and the Court did not disturb the finding though the United States filed many exceptions to the Master's finding in this regard, namely, exceptions numbered 126, 130, 133, 185-188, 192, 203, 206, 209, 239, among others (Vol. II, pp. 689, 670, 702, 704, 706-8, 715).

In now looking back over seventy-nine agreements made over a period of ten years, or more, the temptation is to regard them as a whole as if made at about the same time and under the same circumstances, merely because it involves considerable effort to learn and remember *when* each was made, and *the circumstances surrounding and the reasons for it*. When, however, these circumstances are looked into it will be clear that these seventy-nine agreements do not constitute a "series of contracts" interrelated or causally connected to form a "system of contracts" but that they are separate contracts having, in the main, no relation to each other, except as to general subject matter. In this respect the situation resembles that in *United States* vs. *United Shoe Machinery Company*, 247 U. S. 32, 54, of which the Court said:

> "It is to be noted that the acquisitions in this case were not coincident in time nor parts of the same transaction. They were scattered through a series of years and varied each from the other, had no dependency, were different and unrelated steps in the development of the business of the defendants. They must hence be judged separately, not in accumulation."

The Petition seeks to avoid such separate and detailed examination; it states, specifically (p. 29, *supra*), that the

> "agreements have been entered into with the full knowledge of the purpose of the plan and of the other agreements made and to be made in furtherance thereof."

And the Court below, as we pointed out at page 51, *supra*, seems likewise to have become confused in thinking that all of the agreements were of the same character—namely, that all of the seventy-nine agreements were "cross-licensing and sub-licensing agreements."

But, of the seventy-nine agreements, fifty are ordinary non-exclusive patent licenses granted by one licensor to one licensee, covering only the patents of the licensor without regard to any patents held by other parties, those licenses having been granted before the licensor acquired the right to grant sub-licenses under the patents of any other primary defendant. These licenses surely involve no "sublicensing" and no cooperative action between any of the primary defendants.

The early Indiana licensees:

The reason for the grant of these Indiana licenses under its own patents was obvious. Indiana had developed and patented its "Burton process". This was the first commercially successful cracking process for producing gasoline and the only one available during seven and a half years. By this process, refiners could produce from a barrel of crude

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* Twenty-five U. S. licenses granted by Indiana, namely, Agreements Nos. 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, 14, 16, 17, 18, 19, 20, 22, 26, 27, 28, 29, 30, 33, 39, 57 (pp. 8-9, *supra*).

Five agreements as to foreign patents, Nos. 1, 4, 15, 24, 27, 50, 62 (p. 9, *supra*).

Fourteen U. S. licenses granted by Gasoline Products, namely, Nos. 25, 34, 35, 38, 40, 41, 42, 43, 44, 47, 51, 52, 53, 58 (pp. 14-15, *supra*).

Four U. S. licenses granted by New Jersey, namely, Nos. 36, 49, 64, 65 (p. 17, *supra*).

oil twice as much gasoline as they could without using it (Vol. II, p. 998). Gasoline was the desirable product, and the one for which the greatest demand existed. Without a license from Indiana, no other refiner could safely use that process. Other refiners were very anxious to use it. To do so, they would have to spend enormous sums in plant and equipment. Regardless of whether they could have installed suitable plants and equipment without Indiana's assistance, they would not have dared to hazard a large infringing investment.

Indiana was willing to grant licenses for the reasonable royalty of one-fourth of the licensee's profit from the process, provided Indiana's own business was not thereby interfered with. Then and for years afterward, Indiana's process had no rival and, since each of these licenses was granted after separate and independent negotiations between Indiana and each licensee, each agreement must be considered in the light of the circumstances existing when it was negotiated. Each was granted by Indiana solely under its own patents. Of these licenses, the only ones granted to any of the primary defendants were to New Jersey, or its interests.

We shall now examine those early Indiana contracts, as they are illustrative of all of these Indiana licenses.

Agreement No. 1 (Vol. II, p. 1027) was an exclusive license from Indiana to the Imperial Oil Company, Ltd., of Canada, a subsidiary of New Jersey. Imperial was in the market to buy large quantities of gasoline for shipment into western Canada; a considerable part of this was purchased from Indiana (Vol. II, p. 940). Imperial learned of the Burton process and that it was Indiana's intention "to market this new product largely to the farmers, for use in tractors, at a differential of two or three cents a gallon below the price of gasoline" (Vol. II, p. 940). While Imperial had a ready market in Canada for a cheap motor fuel, the Canadian Tariff Laws hampered importation; so there was every inducement for it to enter upon manufacture (Vol. II, pp. 940-941). Imperial, therefore, negotiated with Indiana for a manufacturing license for Canada only.

Indiana stated that, as its Canadian patent was for a process, it would not be invalidated by importations to Canada of the product made by the same process in this country (Vol. II, p. 942). Imperial, however, obtained the opinion of Canadian counsel who advised that such importation *would* invalidate the Canadian patent (Vol. II, pp. 942-4). This conclusion is fully supported by the Canadian Laws (Vol. II, pp. 931, 932).

To protect and maintain the validity of the patents under which it was obtaining exclusive rights, Imperial insisted upon a clause prohibiting the licensor itself, and others with its consent, from importing into Canada or Newfoundland products made by the patented process. This clause (Vol. II, pp. 1028-9) is the only one in Agreement No. 1 of which the Government complains.

The clause was not part of any plan or conspiracy between the contracting parties to restrain or monopolize foreign trade and commerce, but was required by the Canadian laws if the thing for which Imperial as licensee was paying was not to be destroyed—for it was bargaining for and obtaining *exclusive* rights. Such a restraint is of the class which the common law and the Sherman Act itself pronounce to be reasonable. It is precisely like the covenants against competition with the purchaser which are commonly annexed to the sale of a going business to protect the good will of the business or the subject matter of the sale. It was entirely competent for the licensor to agree to do no act that would invalidate the grant of the license or the patent itself.

By agreements Nos. 4, 15 and 21 (Vol. II, pp. 1049, 1149, 1197) Indiana assigned to New Jersey its patents in twenty-three other foreign countries. Each of those countries has, in its laws, "working clauses" which require the carrying on of the patented process in that country, and importation jeopardizes the patent on the process (Vol. II, pp. 931, 932). While Indiana owned many patents in those foreign countries, it could not export to those countries because such

exportation would invalidate its patents; and it had no facilities for manufacturing there (Vol. II, pp. 952, 1016). But New Jersey had refineries in Norway, Germany, Roumania, France, Havana, Tampico, Talara, Buenos Aires, Sarnia and Vancouver (Canada), and had marketing facilities throughout Europe (with the exception of Portugal) and South America as well as Canada (Vol. II, p. 952).

In this exigency—having foreign patents but confronted with laws which compelled the patentee or his assignee or licensee to carry on the patented process within the country, possessing no foreign refineries and no foreign marketing facilities—what was more reasonable than that Indiana should seek an assignee or a licensee, having foreign refineries, foreign marketing facilities, present ability to comply with foreign patent laws, and from whom a royalty might be obtained for the use of its patent rights? The logical assignee was, obviously, New Jersey.

So Indiana and New Jersey, in April, 1915, entered into contract No. 4 (Vol. II, p. 1049), later supplemented in 1918 by contract No. 615 (Vol. II, p. 1149), by which additional foreign patents were assigned; these were intended to be superseded by contract No. 21 (Vol. II, p. 1197) but this was never signed by New Jersey. Contract No. 4 contains the provision that New Jersey shall not sell, or permit to be sold, products made in the foreign countries under the inventions assigned, in the States in which Indiana was doing a retail marketing business; nor in Canada or Newfoundland, exclusive rights in which had already been granted to the Imperial Company by Contract No. 1 (p. 56, *supra*). A similar provision was in the domestic licenses which we shall immediately consider, and the provision will be discussed in connection with them (see pp. 63-65, *infra*).

Contracts Nos. 5, 12, 13, 33 and 39 have a history equally natural and legitimate.

From about 1910 New Jersey had been experimenting with various processes for obtaining more gasoline from a given quantity of crude oil. Early in 1913, it learned that Indiana was commercially operating a patented cracking

process to produce gasoline, and in March, 1913, New Jersey wrote to Indiana (Vol. II, p. 952):

> "May I inquire, please, on what basis, if any, we could secure a license for the S. O. Co. (New Jersey) to operate under this patent."

Indiana immediately replied (Vol. II, p. 952):

> "We are considering the matter but as yet have not been able to determine the basis, or just how we will handle the question of licensing manufacturers to use the process.
>
> "I shall be pleased to advise you of our conclusions as soon as they are reached."

Later, a licensing policy was decided upon by Indiana which wrote (Vol. II, p. 953):

> "We would be willing to grant you such a license for one cent per gallon, for all stock charged into the pressure stills, details as to time, payments, etc., to be arranged later."

Upon receipt of this information New Jersey replied (Vol. II, p. 953):

> "As the information that we have is so entirely general in its nature, I would like to ask if it will be entirely agreeable for us to send say Mr. Charles Black to look into the process and make a report on present yields, etc. With this information we will then be in much better position to arrive at the value of the process to us."

This request was immediately granted (Vol. II, p. 953).

Thus matters remained until November, 1914, when New Jersey again broached the subject of a license. It wrote to Indiana (Vol. II, p. 953):

> "Referring to our recent chat in which I stated that I thought the time was approaching when we could, perhaps, utilize the Burton Process Still to advantage. I would like an expression of your views as to granting the S. O. Co. (New Jersey), a license for the use of say 10/15 stills, provided that number makes a fair working unit."

In answer to this "feeler" Indiana replied (Vol. II, p. 954):

> "* * * we would be willing to license your company the right to use our pressure still process on the same basis that we have been granting to other companies; that is, 25% of the net profits made by the use of the process. The license to be for a period of two years. We do not feel like making license for a longer period, until we have had time to determine just how far we can go in guaranteeing what it will do."

These terms did not suit New Jersey so it wrote (Vol. II, p. 954):

> "* * * May I ask if you would care to consider the outright sale of the right to use this process by the S. O. Co. (New Jersey) and if so, to receive an expression of your idea as to the value of such right. I am inclined to feel that we would rather prefer to purchase the license outright rather than to pay for the same upon a profit sharing basis."

The response to this inquiry was (Vol. II, p. 954):

> "* * * we do not feel like selling the right to use the process for a long time, for the reason given in my last letter to you."

New Jersey then realized that a license on a royalty basis was all Indiana would grant, so a form of license agreement was secured from Indiana in February, 1915 (Vol. II, p. 954). Then the bargaining began. Indiana had something to sell which New Jersey wished to buy. The correspondence quoted shows that so far from acting in concert to ulterior ends, the parties dealt at arm's length, each with an eye single to its own commercial advantage, whether as licensor or licensee.

New Jersey objected to the territorial limitations in the form submitted, which restricted sales of the products to "the United States, its territories and dependencies, ex-

cluding certain enumerated states." New Jersey wrote (Vol. II, p. 955):

> "It would hardly be possible to agree that products sold would be used only as stated in the license agreement, as we sell considerable naphtha of deodorized motor quality for export, and unless we kept this naphtha absolutely separate all along the line, which would represent an enormous expense, we would not know whether our exports were of naphtha produced direct from crude or through the pressure stills. Further, it is conceivable that we might make sales to the domestic trade without knowing where the naphtha would be ultimately used. As regards the United States, we would, of course, be willing to exercise our best efforts to prevent naphtha being sold for use in such states as you excluded."

It objected to the time fixed by Indiana for each quarterly accounting.

It objected to the proposed limitation to two years. Thus (Vol. II, p. 955):

> "Paragraph five on page four makes the license agreement terminate at the end of two years from date of agreement and without any option on our part. As we would expend a large amount of money for the installation of this apparatus, can you not see your way clear to grant us an option for the renewal of the agreement for a further period?"

It objected because no deductions were to be allowed for depreciation, overhead or interest on investment in determining manufacturing cost (Vol. II, pp. 955-6).

Indiana maintained its position and suggested, in March, 1915, that a New Jersey representative "pay us a visit when we can go over the matter in detail" (Vol. II, p. 956). July arrived, five months had passed, but the New Jersey man apparently had not visited Chicago. He then wrote Indiana (Vol. II, p. 957):

> "I had hoped to find it convenient to visit Chicago or that your good self or Mr. Burton might visit New

York prior to the present time, so that we might go over the matter of the domestic contract together, but inasmuch as this has not come about and as I wish to leave on my vacation, I am sending you herewith, contract forms in which we have made some slight alterations such as mentioned in my letter to you of March 2nd; eliminating the Louisiana Company from the contract, changing the dates on which statements are to be made, etc. If you find these contracts acceptable, may I ask that you be good enough to sign and return for our signature."

Indiana rejected the "slight alterations" suggested, saying (Vol. II, p. 957):

"We would like very much to make the changes you suggest, but cannot see our way clear to do so, as the contract, in the form we have sent it to you, is the general form that we are using. It is the same as the contracts we have made and that we are willing to make with others that want to use the process. To make exceptions in your case would get us into serious trouble.

"It is necessary for us to limit the sales of the products made by the pressure stills in our domestic contracts to the United States, as we have foreign and Canadian patents that must be taken into consideration. We cannot give the exclusive right to any state or states, and have refused to do so in the past."

And thus the matter stood—New Jersey insisting upon certain changes in the proposed license and Indiana steadfastly refusing to make them. Realizing, at last, that Indiana was not to be moved, New Jersey capitulated and accepted Indiana's terms.

This license (Vol. II, p. 1058) is Contract No. 5, dated August 15, 1915. It expired August 15, 1917, and on March 15, 1917, another agreement, Contract No. 12, was executed in substantially the same form (Vol. II, p. 1122), containing no covenant that the licensee would not sell in certain States, but Indiana reserved the right to cancel the license if sales were so made.

This Contract No. 12 provided for a royalty of 25% of the net profits from the use of the process, the method for determining net profits being set forth. Later, as a result of conditions not foreseen when the license was granted, New Jersey contended that no royalty was due for a particular accounting period and that there was a loss to be carried forward to the next accounting period to offset any possible payment then. Indiana challenged New Jersey's accounting. A compromise, embodied in Contract No. 33 (Vol. II, p. 1345), was effected whereby Indiana agreed to accept in lieu of 25% of the net profits a flat charge of $208 per still per month to extend over a period of 3 years (Vol. II, pp. 960-1). This was the only substantial modification of Contract No. 12 effected by the new contract.

In making these contracts, Indiana and New Jersey were in the relation simply of licensor and licensee, and the terms were such as any persons in that relationship had the right to agree upon.

The restriction which the Government attacked (but to which neither the Master nor the District Court objected) is a restriction in the territorial scope of the license rights; that is, New Jersey is licensed to manufacture and to sell the products throughout the United States with the exception of certain specified states.* This restriction was not sought by New Jersey; it was imposed upon it (pp. 60-62, *supra*). And, as even the Government admitted in its brief below, "a single patentee may, it is true, by licenses or otherwise, impose upon the subject matter of his patent, such territorial restrictions as he sees fit." This is obviously true. Indiana, owning the patents, could have granted no licenses but could have reserved the invention to itself. If it granted licenses, it need not grant free and unrestricted licenses—it might grant less than the whole. It might agree unconditionally not to enforce its patent against the licensee (which is all that a non-ex-

* All such provisions have now been cancelled by Indiana in response to an inquiry by the District Court (Vol. II, pp. 736-757).

clusive license amounts to) or it might attach conditions to its agreement (see pp. 133-136, *infra*).

It did not seem to New Jersey, when it entered into these contracts, nor does it seem now, that Indiana was unreasonable in imposing these limitations. Indiana had a successful and proved cracking process which New Jersey very much desired to use. Though the product itself was unpatented to Indiana, New Jersey did not know how to make it, commercially and economically, except by the Burton process. Indiana would not give New Jersey the benefit of its patents without safeguarding itself against the use of its property (process and experience) to its own detriment in places where it did its principal business. This was purely a matter of business precaution. The transaction was essentially like those in which one manufacturer permits another to use even an unpatented machine and instructs him in such use. If the owner of the machine is himself using it to make a product which he sells in a certain territory, and someone else wishes to borrow or lease some of those machines, is it reasonable or is it unreasonable for the owner of the machines, in loaning or leasing some of them to the other person, to provide that such person shall not interfere with the owner's business by selling the product of that machine in the territory where the owner sells? To loan or lease machines without such a restriction might ruin the owner of the machines especially while (as in this case) the business was young. It is no answer to say that the other person might make the machines himself, or make other kinds of machines to produce the same product; he may not know how to make them or how to make them well, or he may wish to avoid the large expense of manufacture and development; in any event, he prefers to borrow or rent the machines and to submit to the reasonable requirements of the owner in this regard.

What is said above as to the license to New Jersey applies equally to each of the simple licenses to fifteen other refiners (see pp. 8-9, *supra*) which Indiana granted solely

under its own patents. In them, it imposed such restrictions as seemed to it reasonably prudent, without any agreements or understandings with others. The restrictions covered only gasoline *produced by the licensed process*. By the use of the process, the licensee could double his gasoline output. So, after beginning operations under the license, he could ship into and market in the restricted territory all of the gasoline he had been making or might make by other processes, and still have on hand for market outside of that territory an equal additional amount. The license did not restrict but enlarged the licensee's operations.

New Jersey and Gasoline Products licenses:

The second and third group of licenses referred to (pp. 14-15, 17, *supra*) as granted by the patent owner only, are those of New Jersey under its own patents (Nos. 36, 49, 64, 65) and of Gasoline Products under *its* own patents (Nos. 25, 34, 35, 38, 40, 41, 42, 43, 44, 47, 50, 51, 52, 53, 58, 62). These licenses, like those of Indiana considered above, lie entirely outside of any alleged combination and conspiracy between the primary defendants. New Jersey's licenses are under its own patented Tube-and-Tank process, and those of Gasoline Products are under its own patented Cross process; as to each, the owner enjoys all the unrestricted contract rights inhering in any patentee. No other defendants had any part or lot in them, or any share in fashioning their terms.

It is difficult indeed to fathom the purpose of the Government in bringing these groups of licenses into its petition at all, since it will certainly not be claimed that New Jersey, and Gasoline Products, acting independently and not in concert, had not the right to license or to refuse to license, and if to license then to license on their own terms as to royalty, extent of use, etc. (See authorities, pp. 133-136, *infra*.)

Indeed, the Government stated in its brief below that "a single patentee may undoubtedly fix his own royalty rates at any figure which his arbitrary whim may dictate" and that "an individual patentee may undoubtedly parcel out his

monopoly distributively as well as geographically. He may restrict the amount of business to be done under his patent by requiring his licensees to limit their production to any quantity which he may prescribe." That is all that has been done in the foregoing licenses severally granted by Indiana, New Jersey and Gasoline Products. There was no concert of action whatever, and in each instance the restriction was at the grantor's sole instance and for its sole benefit, and not for the advantage of any other primary defendant, or anyone else.

And here again the circumstances attending the negotiation of these several licenses negative all intent to restrain trade, or to exercise any monopoly beyond that conferred by the patents themselves. The clauses in these licenses granted by New Jersey and Gasoline Products, respectively, to which the Government points its accusing finger, are those relating to the number and size of the units to be employed by the licensee and the amount of oil which may be treated, and the royalty provisions. It is alleged that these clauses (Pet., Vol. I, p. 40):

> "restrict many of the licensees in the amount of gasoline which they may produce for interstate sale and transportation by fixing a limitation of the production or by imposing a graduated scale of royalties which penalize production over a certain amount by making it unprofitable."*

The inclusion of these provisions in the four New Jersey licenses Nos. 36, 49, 64 and 65, is explained by the witness Howard as follows (Vol. II, p. 968) without any contradiction:

> "The number of units called for by the Beacon contract was fixed by Mr. Wollenberg as the number which he might reasonably expect he would require for that Company as far ahead as he could see. This contract provides for a paid up royalty of $40,000 per unit for the first ten units, and $50,000 for the second ten. Mr.

* There is no evidence to support this conclusion that production was rendered unprofitable.

Wollenberg had seen that he was going to use the first ten units but was not certain that he would need more. I was pretty certain that he was going to use the second ten. I therefore figured that this price arrangement would net me $45,000 per unit. Mr. Wollenberg on the other hand figured that the net cost to him would probably be only $40,000 per unit. So far he is right, but I think in the next few years I will be right and average return will be $45,000 per unit. It is simply a question of giving to Mr. Wollenberg the lowest price on a unit, that he immediately wanted, and averaged out on something that I thought but that he didn't believe, or wasn't so certain, he would later require.

"Q. Why was the maximum number of units, under the contract, restricted to twenty—why was any limit placed on the number of units?

"A. That contract was on a very favorable basis—at least, I so considered it. We had, at that time, no Ellis patent——

"The Master: You mean a favorable basis to the——

"The Witness: to the Beacon Company—I felt that it was exceedingly favorable to them, since it provided a very low royalty—ten cents per barrel, with a paid up royalty, averaging over the twenty units, $45,000 per unit.

"I would not have thought that to be a fair royalty, except for being compelled to admit the justice of Mr. Fish's position, that we hadn't any patent, as yet, and had only some possibility of getting one.

"There was also the consideration that the process, while I thought it would be an assured success, only had an extremely limited use until then, and I believed we would get out of the Beacon Company, in the early stages of it, a great deal of valuable experience, to help my own Company in its further advance.

"Therefore, I felt that the Beacon Company was entitled to, and should receive a royalty basis very much lower than I would probably be willing to agree to at a later time.

"It seemed to me that in granting the Beacon Company's license, I should not, in fairness to the interests of my company, grant an unlimited license at $45,000, average, per unit, but should restrict the license to the

number of units that the Beacon Company asked for and said that they had a reasonable prospect of using, within the not too distant future.

"The making of a contract for an indefinite number of stills, at that time, would have been a speculation on both sides—it would have been speculation on their side, as to our ever having any protection, and a speculation on our side as to our ability to get patents. If we got satisfactory patents, $45,000 per unit is too low, so I thought, and if we didn't get any patent it was too high.

"So it seemed to me that the contract, as drawn, represented a compromise based on the present situation as it existed, with a minimum limit of speculation on the part of either side, and with an opportunity on the part of either side to make a new contract at a later date, based upon whatever might be a just price, at a later date."

During these negotiations which terminated in Contract No. 36 with the Beacon Oil Company, a Mr. Leonard, Beacon's largest single stockholder, who was more experienced in the oil business than any of the other officers or directors of the company and who participated in all these discussions (Vol. II, p. 967), suggested

"that he would like to have the right to take a contract for this process for one of his own producing interests which was very small for which he said he contemplated at some time later engaging in a refining operation."

Mr. Howard (Vol. II, p. 967):

"agreed with him then that I would give him a license for five units on the same basis as the Beacon license."

Later in November, 1922, after the Ellis patent had been issued (Vol. II, p. 968):

"Mr. Leonard did ask for such a contract * * * for the Owl Oil Company, which was owned by him, and I fulfilled my promise to him, made as of the date of the Beacon negotiations and caused the Owl contract to be issued."

Hence the similarity between the provisions of the Owl contract No. 49 (Vol. III, p. 1512) and those of the Beacon contract No. 36 (Vol. II, p. 1369).

Contract No. 64 (Vol. III, p. 1653) the license from New Jersey to Galena Signal Oil Company, limits the licensee to equipment having a maximum capacity of 2,000 barrels per day, and contract No. 65 (Vol. III, p. 1667), the license to Vacuum Oil Company, limits the licensee to equipment having a maximum capacity of 4,000 barrels per day. In each case this limitation was imposed because the licensee said that was the number of units it desired, and all it asked a license for; each could have had a license for more units if it so desired (Vol. II, p. 970).

As to the barrelage limitations appearing in Gasoline Products' licenses, Osborn testified as to the substantial leeway allowed to cover the licensees' estimated maximum requirements and the independent method in which these amounts were agreed upon with the several licensees (Vol. II, p. 853). Gasoline Products' sole business was licensing, and it necessarily desired its licensees to increase rather than restrict the installations upon which its royalty income depended, although it was, of course, desirable for it to limit the extent of its commitments upon given terms, or at a given royalty.

All of the foregoing licenses, fifty in all, were issued by Indiana, New Jersey and Gasoline, respectively, in pursuit of their own individual policies. Each license was under the patents of the licensor only. Each licensor fixed its own terms entirely uncontrolled by, and independent of, any other party or any agreement with any other party.

Indiana-Texas Contract No. 31:

The Government urges that Indiana's inclusion, in its early licenses, of a restriction against sales of the products made under the licenses in the States in which Indiana was doing a retail marketing business, was evidence of a definite intent to obtain a monopoly in that territory by agreement. This contention is disproved by Contract No. 31 with Texas,

in August, 1921 (Vol. II, p. 1315). For that contract, with this very large producer and active competitor, contained no such restriction.

In its early licenses, Indiana was evidently feeling its way along. It did not wish to grant licenses to the injury of its own business. Its earliest licenses were for two years only (pp. 8, 60, *supra*). Then it found that licensing was not seriously harming it, and these licenses were extended and long term licenses were granted. For the same reason, its early licenses had in them the territorial restriction mentioned above. Then Indiana learned that it, also, was unnecessary, and proceeded to grant licenses without such restriction. Still it was cautious in whatever it did and thoughtful as to the future and, fearing that sometime it might have a shortage of crude oil for the production of gasoline, it, in its cross-license with Texas in 1921, obtained an option* to purchase, at the wholesale market price prevailing at the time of its exercise, a portion of the gasoline made by Texas "by pressure cracking" in specified States, namely one-third of the Texas production in those states in excess of 25% of the Indiana production through operations of the same character in the same States (Section 13, Vol. II, p. 1320). Indiana did not do this in subsequent licenses, such as those granted to New Jersey, Gasoline Products and others; it had by that time acquired sources of crude oil (Vol. II, p. 1025) and did not believe it necessary longer to negotiate for such options. It moved forward cautiously, step by step; and its only intent inferable from the evidence was, not to restrict more and more, but to dispense more and more with restrictions, until, as in later contracts, none was left, as we shall see.

The circumstances surrounding the making of the Indiana-Texas cross-licensing agreement No. 81, in 1921, were as follows:

In the latter part of 1919 and early part of 1920, the Texas Adams patents issued, the applications therefor having

* We discuss this option clause in our consideration of the opinion of the District Court, see pages 100-105, *infra*.

been in the Patent Office from 1909. These patents, therefore, had an effective date earlier than those of Indiana's Burton patents. They were infringed by the process being practiced by Indiana and its licensees; and the Texas Holmes-Manley process infringed Indiana patents.

Thus, the Master found (p. 40, *supra*), "a comparison of some of the claims of the Adams No. 1,327,263 [owned by Texas] and Burton No. 1,049,667 [owned by Indiana] will readily convince anyone of the seriousness of the conflict"; and Texas was, in its Holmes-Manley process, using some of the claims of the Clark, Humphreys, Burton, Lewis & Cooke and Burton & Clark patents of Indiana and was producing a product which infringed one of Indiana's Burton patents; and the Palmer patents owned by Indiana were also a threat (p. 37, *supra*).*

Texas waited some six months after the issuance of its Adams patents and then formally notified Indiana of infringement and demanded an adjustment; and Indiana then immediately charged Texas with infringing *its* patents by the operation of the Holmes-Manley process—a charge which the Texas counsel advised was probably sound (Vol. II, pp. 919-920).

What, then, were the necessities of the two parties?

Indiana had its Burton installations and numerous licensees were similarly equipped, representing a very large investment. It therefore needed for itself and its licensees a release under the Adams patents. Indiana wished to grant more licenses and to secure to its future licensees safety in their operations. Hence, it needed the right to sub-license

* Indiana's infringement of the Adams patents of Texas is shown by its answers to Interrogatories (Vol. IV, pp. 2144-6) and by testimony (Vol. V, pp. 3242, 3245, 3259). The infringement by Texas of the patents of Indiana is established by its Answers to Interrogatories (Vol. IV, pp. 2180 and 2188) and by evidence (Clark patent, Vol. VI, p. 3627; Humphries, Vol. V, pp. 3131-8 and 3195-7; Burton, Vol. V, p. 3201, Lewis & Cook, p. 3201; Burton and Clark, pp 3188 and 3199, Burton product, Vol. VI, p. 3304).

under the Adams patents. Indiana saw, in the Holmes-Manley process, an improved and, in many respects, better process than the Burton (see p. 36, *supra*) and it wanted freedom to use it and to extend the use of it to its licensees, present and future.

Texas had its new process with a large investment in equipment and was threatened with an infringement suit by Indiana on a group of patents which the Master has found are unapproached by any prior art (pp. 35, *supra*, and 140-147, *infra*), and which its counsel advised were infringed. Texas had issued no licenses but wished to issue some so as to have a royalty income. For this purpose, it needed a release, license and power to sub-license under the Indiana patents.

Further, both parties maintained research departments and both well understood the importance of getting licenses under future inventions. One embarking on or continuing a course of research cannot tell, in advance, where he will be led; and research in a field copiously dotted with issued patents and patents to issue on pending applications, even though not dominating the entire field, is extremely embarrassing, for the research must then be confined to the rather arbitrary tracks left uncovered by adverse patent monopolies. The research worker wishes to be free from menace, and to secure the necessary immunity before his own success has enhanced the value of particular patents to the point where a license cannot profitably be secured at all. It is a matter of real value to every licensee to have available for his free use the largest possible number of expedients which his engineers may freely adopt if they happen to fit into his own particular conditions.

These two companies (Indiana and Texas) competing actively in the refining and marketing of petroleum products, were each claiming that the other infringed, and asserting the right to enjoin the other and to collect damages for such infringement. Each feared the other would prevail in litigation. Because of the immensity of the operations of each, the

injunction and damages attendant upon defeat might jeopardize the entire business of the loser. There was not only the question of freedom of research, development and operation by the companies themselves and those companies then operating under Indiana licenses, but there was the question of damages already accrued.

Each party, to continue its legitimate normal business development, had to get the foregoing rights from the other. The only alternative was patent litigation, the outcome of which then may have appeared uncertain, but which, in the light of the Master's report here, we can see would have been of a completely destructive character. The Government has here launched against the patents the complete art which could have been used as defenses by either party. The Master has passed on this art and has held that it does not meet or anticipate any patents against which it is cited (pp. 35, *supra*, and 140-147, *infra*). The Government has made in vain the same attack on each patent that either party could have made in litigation. The Master's report shows that there is nothing in the art which could or should deny to any patent, of either Indiana or Texas, the full *prima facie* breadth of its claims. Therefore, we can now see, in the light of the Government's evidence, that the threatened litigation would have led to a deadlock whereunder each party would be granted an injunction restraining the operations of the other. Had such litigation occurred, it would only have compelled at a later date the adjustment which was wisely made in 1921, for without such adjustment the demand for gasoline could not have been met.

The full history of the negotiations which resulted in Contract No. 31, and the motives behind it is contained in the record (Vol. II, pp. 898-900, 920, 928-9; 1004-5, 1017-8).

By that contract, Texas and Indiana each granted to the other those rights which were indispensable to the carrying forward of their respective enterprises. Each granted to the other a free license under the patents of the other. Each

extended to the other the right to grant sub-licenses. Texas agreed not to molest Indiana's present licensees. Future inventions, as well as past inventions, were included.

To all of this, as we read the opinion, the District Court takes no exception. It criticizes, however, the arrangements made with respect to royalty income. The situation as to that was as follows:

Indiana and Texas were of about equal size and their operations were about equally extensive. Hence, it was fair that each should license the other without royalty, the claims of Indiana against the operations of Texas being offset against the claims of Texas against the operations of Indiana. But the situation with respect to the licensees of each of the companies was different. Indiana had as licensees some nineteen major refiners, and Texas had none, although it hoped to have licensees. It was impossible to predict how the operations of the two might compare in the future; the claims were not susceptible of exact measurement, so the royalties to be collected furnished the measure of the operations to be conducted.

Since it was indispensable to Indiana that Texas should release the refiners *already licensed* under Indiana's patents so that these refiners would be free in using the patents of both, the only practical means for compensating Texas was to provide that Indiana should pay over to Texas a part of the royalties from these licensees in compensation for the Texas release to them. Any other arrangement would have necessitated negotiating new contracts with all of Indiana's licensees and increasing their royalties to pay something additional to Texas. Indiana, to protect its licensees from attack by Texas, was willing to pay Texas a part of the royalties it received; its licensees obtained greatly increased freedom thereby, with no increased payments on their part. As to *future licensees*, since the licenses were to be under the patents of both, it seemed perfectly reasonable and normal that the royalties should be divided.

As to what this division should be, the parties dealt at arm's length and bargained for the best arrangement they could severally make. That the percentages were the result of discussion, and not of preconcerted plan (as the Government alleges but does not attempt to prove) appears from the evident fact that they were arrived at as a compromise at the end of a long negotiation (Vol. II, pp. 898-9). Texas gets 25% of the royalties from old licensees of Indiana, 50% from new licensees, and the date from which new licenses are dated is also an evident compromise. The details of this division are unimportant; for the criticism which has been made is directed against any division whatever. We fail to see how any other arrangement could equitably have been made.

The only sane and the only reasonable thing was for these parties to grant licenses under the patents of both, and to divide the proceeds on the fairest basis they could trade out.

It is to be especially noted that Contract No. 31 in no way limited the freedom of each party to grant licenses under its own patents. In addition, each could grant licenses under the patents of both and when these enlarged rights were exercised, they were naturally required to be exercised in a defined manner; but no right that either party had before the contract was in any way reduced. The contract enlarged the freedom of manufacture, and of licensing, of both parties without restraining either in any manner.

It constituted a settlement accomplished by using future royalties as a logical measure of liability; it was agreed upon after the most strenuous trading, each party giving up as little as possible and fighting for every dollar, the future payments being compensation to each, as nearly as could be ascertained, for their respective patent positions.

The Master's findings and conclusions as to this agreement No. 31, are at pages 40-42, *supra*. Our consideration of this agreement, in connection with the decision of the District Court, is at pages 100-115, *infra*.

Circumstances leading up to Gasoline Products' cross-licensing agreement:

In 1919 Gasoline Products granted one license (No. 25, Vol. II, p. 1250) under its own patents, its second license was granted in 1922 (No. 34, Vol. II, p. 1347). It was in no sense a factor in the cracking situation when Indiana and Texas made their agreement in 1921. But, as time went on, it became a real factor and proved the importance of its process and the value of the Cross inventions which characterized it. As the Master found (p. 36, *supra*) the Doctors Cross, of Gasoline Products,

> "took a distinct step forward in the gasoline refining art, and they have gone further than any other of the inventors in the utilization of very high temperatures and very high pressures, which is in line with the general trend of the art of destructive distillation. Their patents are a contribution of great importance to the patent art relating to the refining industry."

By 1923 Gasoline Products had granted thirteen licenses. These were its only source of revenue, for it was not an operating company. If its licensing fell, its whole business disappeared. And, under its licenses (pp. 14-16, *supra*) it was under the very serious obligation to defend suits brought against its licensees for infringement and to hold some of them harmless.

In 1922 the Ellis cracking process patent issued to New Jersey, which promptly brought suit on it against the Pure Oil Company, one of Gasoline Products' licensees, which suit Gasoline Products undertook to defend (Vol. II, p. 839). That this suit was well founded is shown by the Master's report (p. 37, *supra*) to the effect that, in the Cross process certain difficulties "were overcome by the expedient first suggested by Ellis".* The immediate result of the bringing of that suit was that Gasoline Products found it very

* And, as the Master found (p. 38, *supra*) claims of this Ellis patent are employed by Texas also. Gasoline Products admits infringement of this patent in its answer to Interrogatory 37 (Vol. IV, p. 2205) and its infringement is abundantly corroborated by evidence (Vol. V, pp. 3224-30, 3261-5).

difficult to persuade other refiners to expend money on the installation of its process (Vol. II, p. 840).

At about the same time, Gasoline Products learned that it was to be involved in interferences with New Jersey and Texas in the Patent Office, and it was advised that patents which would issue as a result of the interferences would cover important features of its Cross process (Vol. II, p. 841).

Not only was it indispensable for Gasoline Products to adjust these various matters, but also it naturally wished to obtain for its licensees the largest possible group of future improvements. As Osborn, who was managing the affairs of Gasoline Products, testified (Vol. II, pp. 841-2) it seemed to him desirable to settle the pending suit brought by New Jersey and, as far as possible to forestall further litigation; and he therefore had an investigation made to determine whether there were overlapping patents other than those of New Jersey. He took up negotiations with New Jersey, and also with Texas with whom difficulties threatened in the interferences in the Patent Office.

The situation of Texas had changed materially in the nearly two years which had elapsed since it settled with Indiana, by Contract No. 31, and supposed it was free from trouble.

A feature which Texas had always regarded as of the utmost importance in its Holmes-Manley process (putting the heat into the oil in a tubular member, or coil, but deferring practically all of the cracking to a larger reaction chamber where only moderate heat is applied), was one which it had believed that it, itself, was primarily responsible for developing (Vol. II, p. 922). In March, 1922, however, Texas learned two very disturbing facts in this connection. It saw a pamphlet, then recently issued by Gasoline Products, describing its Cross process as being much the same as the Holmes-Manley process of Texas in respect of the important feature just mentioned. "That principle was pointed out in bold type in this pamphlet". That opened the eyes of Texas to a new situation, namely, one in which Gaso-

line Products was asserting ownership of this feature (Vol. II, p. 923). The other fact which came to the attention of Texas at that time was a British patent recently issued to New Jersey, with an early filing date, covering the important feature, above mentioned, of the Holmes-Manley process; from this it seemed certain that New Jersey would have filed an application for a corresponding United States patent (Vol. II, pp. 921-2).

And, in the month of May 1922, Texas was further disturbed (Vol. II, pp. 913, 921) by acquiring knowledge that New Jersey was, in effect, the owner of the Rogers claim to a 40% interest in the Adams inventions (which Texas had thought that it owned entirely) then being litigated in the Rogers-Adams suit (see pp. 82-85, *infra*). Also, in that month the Ellis United States patent referred to above, issued to New Jersey, covering an operation involved in the Holmes-Manley process as well as in the Cross process of Gasoline Products (Vol. II, pp. 913, 922, 924). As above noted, it was upon this patent that the suit was brought in July 1922 against Gasoline Products licensee, the Pure Oil Company. Also, in July 1922 the Court sustained the New Jersey claim that it owned a 40% interest in the Adams patents of Texas (Vol. II, p. 921, and Ex. 514; Vol. II, p. 901).

Altogether it was evident that Texas must settle with New Jersey and Gasoline Products if it wished itself and its licensees to be safe. Gasoline Products then proposed to Texas that they should assist each other in their defense to New Jersey's position (Vol. II, pp. 913-4).

The New Jersey menace had arisen entirely after the Texas-Indiana Contract No. 31 of 1921, or, at least, New Jersey's position, in so far as it was actually threatening in 1921, was unknown to Texas. Texas had dealt with Indiana in 1921 on the theory that New Jersey was simply an Indiana licensee, and it experienced a very rude awakening. The licenses which Indiana had granted were not limited to the use of any specified process, and, by Contract No. 31, Texas had extended to those licensees licenses under all of its patents, present or future, so long as they paid their Burton process

royalties. Therefore, after this contract No. 31, New Jersey was absolutely free from attack by Texas, provided it paid royalties at the Burton rate on any process it chose to employ. Accordingly, Texas found itself in a position where New Jersey had patent rights under which the Texas operations might be enjoined while Texas had inadvertently bargained away everything it had to trade, except a release for a relatively small claim for royalties.

Texas, therefore, felt itself not only bound to trade with Gasoline Products for safety against the threat arising from Gasoline Products claims against it, but bound to ally itself with some concern like Gasoline Products which had not already largely released New Jersey and whose claims, if pushed home, might result in an injunction against New Jersey's Tube-and-Tank operations.

Texas' motive in closing with Gasoline Products Company was, therefore, the double one of clearing itself from the immediate threat arising out of the prospective Patent Office interference, and of allying itself with Gasoline Products that common cause could be made against the common enemy, New Jersey. Also, Texas had charged Gasoline Products with infringement of the Adams patents (Vol. II, pp. 913, 924) and was anxious to close an agreement in order to prevent Gasoline Products from making an agreement with New Jersey, which agreement might close the door to Texas getting what it wanted from Gasoline Products (Vol. II, pp. 924-5). And the use of Adams inventions in the Gasoline Products' Cross process is proven (Vol. V, p. 3243).

Texas-Gasoline Products, Contract No. 55:

The negotiations between Texas and Gasoline Products resulted in the Contract No. 55* dated January 26, 1923

* It should be noted that, though the Petition sets out numerous "restrictive covenants" (pp. 28-29, *supra*) and prays that the agreements be "declared null and void as to each and every part thereof which provides" so-and-so (p. 30, *supra*), no restrictive covenants are alleged to exist in this Contract No. 55, and not a single paragraph of it is affected by the prayer of the Petition.

(Vol. III, p. 1579) relating to United States patents only. By this agreement the Cross process was defined (Clause 5), and Gasoline Products was authorized (Clause 2) to license the Cross process under the patent rights of Texas (the latter to receive a royalty for all operations under the Cross process), and Gasoline Products agreed (Clause 6) not to make any charge of infringement against Texas or its licensees because of their use of the Holmes-Manley process, as defined. Also, Texas agreed (Clause 8) to open negotiations with Indiana and New Jersey to the end of acquiring for Gasoline Products a similar license under the patent rights of those companies; upon securing such rights, additional royalties were to be paid to Texas.

Gasoline Products, having obtained from Texas the right to extend to its licensees immunity under Texas patents (and, through Texas' efforts, under Indiana's patents), did so, in the case of then existing licensees, by letter dated May 18, 1923 quoted at pages 21-23, *supra*. As stated in that letter, not only did the licensees thus acquire immunity against claims under patents but also "certain rights which have enabled us to enlarge our process and use a highly efficient type of tower"—all without additional royalty.

Circumstances leading to New Jersey cross-licenses:

Before considering New Jersey's threatening position to the other parties, we shall briefly summarize the situation of Texas, Indiana and Gasoline Products, and their claims against New Jersey, bearing in mind that New Jersey had an extensive licensed Burton operation on which it was paying royalty and a considerable and rapidly growing Tube-and-Tank installation upon which it was paying no royalty, and upon which it did not wish to pay any.

New Jersey had a license (Contract No. 12, p. 63, *supra*) under all of the Indiana patents, present and future, which it could employ in any way it saw fit, providing it paid royalties at the Burton rate, and, through Contract No. 31 between Indiana and Texas (pp. 69-75, *supra*) it had acquired

like immunity under all the Texas patents. So far as Indiana and Texas were concerned, Jersey was absolutely safe from injunction. But, proceedings were under way in the Patent Office looking to an interference involving Texas, Gasoline Products and New Jersey, the outcome of which might result in a patent to Gasoline Products which would completely dominate and, unless settlement was made, result in enjoining New Jersey's Tube-and-Tank operations (p. 77, *supra*). Furthermore, Indiana was insisting that the Tube-and-Tank process of New Jersey ought to pay Burton royalties because it contained the inventions of Indiana's Palmer patent, and Indiana's Burton and Clark patent, as well as pending applications of Texas (Vol. V, pp. 3235-6, 3188-9, 3231). The seriousness of this situation is shown by New Jersey's answers to Interrogatories XVIII and XX (Vol. IV, p. 2125). And New Jersey was also infringing a product patent of Indiana (Answer to Interrogatories LXXVI and LXXVIII, Vol. IV, p. 2135, and Master's report, Vol. I, p. 476).

New Jersey early recognized the great commercial possibility in the field of anti-knock motor fuels. It started on a definite program of developing an anti-knock motor fuel which finally resulted commercially in what is now known as "Ethyl" gasoline. There were extant certain Hall patents dominating the making of such a fuel by pyrogenetic cracking. Texas also recognized the potential value of this field and in a race for the purchase of these Hall patents had beaten New Jersey by a few hours (Vol. II, pp. 976-7). New Jersey was very anxious to get this menace out of the way to acquire freedom to develop this anti-knock field without claim of infringement.

Now let us consider what New Jersey had to bring into a trading session.

First, it had the Ellis process patent, found by the Master to cover the Holmes-Manley operations, the Gasoline Products operations, and the immediately prospective operations of Indiana under the Holmes-Manley process (pp. 37-

38,* *supra*). This patent New Jersey had bought because it covered its own Tube-and-Tank Process (Vol. II, pp. 965-6). This Ellis patent alone was a very serious threat to all parties. It had issued to New Jersey after the Texas-Indiana contract No. 31, and a test suit upon it was pending against one of the Gasoline Products Company's licensees (p. 76, *supra*).

Second, New Jersey was in the prospective Patent Office interference (p. 77, *supra*) and had to be reckoned with as a possible victor in that matter.

While the foregoing conflicting positions would undoubtedly have justified a business settlement, the real menace of New Jersey arose from the Adams situation which rendered a settlement indispensable. The Adams patents issued to Texas late in 1919 and early in 1920. Thereupon Texas became a menace to all users of the Burton process, and of many other processes. Everyone interested in cracking was looking for defensive ammunition.

Hence to a licensee, such as New Jersey, employing several hundred Burton stills, fate was not unkind when it led one George T. Rogers in June, 1920, to seek the advice of the President of New Jersey, in relation to "some patent matter." When he called, he said that, some time around 1903 or 1904 he, being a friend of Adams of long standing, advanced $7,000 to Adams to finance the latter's work in the development of some cracking processes; and that in return

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* That Gasoline Products infringed this patent is fully shown (Vol. V, pp. 3224-6, 3261-4). Its infringement by Texas in its Holmes-Manley process is conceded both by Texas and Indiana in their Answers to Interrogatories (Vol. IV, pp. 2144 and 2180) and shown by evidence (Vol. V, p. 3263).

New Jersey also owned the Ellis product and treating process patents. Indiana and Texas both admit the use of the treating process (Answers to Interrogatories 71-3, pp. 2140, 2186-7). Indiana's Answers to Interrogatories state that the Ellis product patent is threatening to its product and Texas admits that it makes the Ellis product. Infringement of these patents is established by the evidence (Vol. VI, pp. 3322-4).

for those advances he had taken a contract from Adams purporting to convey to him certain rights under anything that might result from this work. This contract Rogers showed to New Jersey. He said that he had repeatedly tried to get some money out of Adams, either repayment of the $7,000 or some interest in the patents, and that Adams had declined to recognize that the contract applied in any way to the processes which had resulted from his development work (Vol. II, p. 973).

Feeling that Rogers' claim was worthy of New Jersey's attention, the latter entered into an option contract with Rogers under which New Jersey undertook to prosecute Rogers' claim against Adams and, of course, against Texas as the successor to Adams' title, taking for New Jersey the right to purchase the claim at any time for a sum named in the option contract (Vol. II, pp. 973). Suit was then brought by Rogers in the Supreme Court of the State of New York against Adams and Texas, charging Adams directly through the contract and charging Texas as having taken title with knowledge of this contract (Vol. II, p. 973). The pendency of this suit was public knowledge, but New Jersey's connection with it was unknown until the trial.

That suit was successful and Texas was held to be charged with constructive knowledge of the Rogers-Adams contract (Vol. II, p. 902). The Supreme Court of the State of New York, on July 21, 1922, decreed, among other things:

> "* * * that the plaintiff is entitled to and is the owner of an undivided interest, to the extent of forty per cent (40%) in the defendant Adams' basic invention * * * and all other Letters Patent hereafter granted for the aforesaid inventions, means, methods, processes, apparatus or products, *and in all moneys or other valuable considerations which have been or may be derived therefrom* by the defendants or either of them, whether as the purchase price upon the sale thereof or as royalties, rents or license fees derived therefrom, and in all gains, savings, and profits, derived or to be derived by The Texas Company from the use thereof; * * *"

It was further ordered that Adams and Texas

"do jointly and severally and to the extent that either of them holds the same, convey, assign and transfer unto the said George T. Rogers an undivided interest to the extent of forty per cent (40%) in the following, to wit:

"(1) *The said Adams' basic invention* * * * and in all other Letters Patent hereafter granted for the aforesaid invention, * * *.

"(2) *And in all moneys or other valuable considerations which have been or may be derived by the defendants or either of them from the aforesaid inventions*, means, methods, processes, apparatus, products or patents, whether as the purchase price upon a sale thereof or as royalties, rents or license fees therefrom, and in all gains, savings or profits derived or to be derived by the Texas Company from the use thereof."

And further

"* * * that the defendants, and each of them, *account* to the plaintiff for all moneys or other valuable consideration derived by them from the aforesaid invention * * * and that the defendants pay to the plaintiff forty per cent (40%) thereof when ascertained." (For further provisions of the decree and the opinion of Mr. Justice McAvoy, see Vol. II, p. 909).

The judgment of the Supreme Court of New York was affirmed by the Appellate Division in June 1923 (206 App. Div. 739).

It is obvious that this determination by the New York courts that Rogers was entitled to a 40% interest in all the patents of Adams past, present and future covering his efforts to crack gasoline, was of the utmost importance to New Jersey, and of the greatest concern to Texas, Indiana and Gasoline Products. It placed in the hands of New Jersey a weapon which might be used to its advantage in negotiating for freedom to continue to use and to develop its processes along any lines it chose. And that was what New Jersey wanted—freedom of action, freedom to conduct its

own business independently and in such manner as it might individually choose.

The foregoing was the situation in which the parties approached settlement. Texas and Indiana were completely at the mercy of New Jersey if the decree of the New York Supreme Court was affirmed (as it subsequently was in June 1923, 206 App. Div. 739) and all they had to trade with was the Hall patent situation, a claim for royalties on the Tube-and-Tank operations, an adjustment of the Burton royalty accounting, Gasoline Products' threat arising from the Patent Office interference, and the possibility of a reversal of the Rogers decree on appeal.

It was this situation which the parties met to adjust.

New Jersey-Texas-Indiana Contracts Nos. 73 and 74:

From the foregoing it appears that the business of each of the primary defendants was in jeopardy due to the threat of patents in the hands of the others—large recoveries and the disastrous effect of injunction were feared. So they settled their differences and removed that jeopardy. As was said in *United States* v. *United Shoe Machinery Co.* 247, U. S. 32, 53:

> "No one can tell the strength of the competition there may be in a patent. It may be more than competition; it may be destruction, and the Anti-Trust Act surely does not require the acceptance of that or forbid effort to prevent it. But even if such extreme does not impend, certainly improvement of business and its efficiency can be striven for without offense to the law."

The negotiations commenced in April or May of 1923 between Holmes and Dearborn, representing Texas, and Howard representing New Jersey, just before a trip Howard made to California. At that time the parties "came very close to an agreement" (Vol. II, p. 974). Dearborn joined Howard on this trip west, and they stopped over in Chicago to see Indiana and its counsel to learn what view they would take of the matter; at that time the conversations

were reduced to the form of a very brief pencilled memorandum, the outline of a possible agreement, which was soon thereafter put into definitive form (Vol. II, p. 974). Copies were sent by Howard to the others from whom were received assurances that they were willing to complete the contract along the general lines of the draft; nothing more was done until Howard returned to New York.

While Howard was still in California, the Rogers-Adams decree was affirmed by the Appellate Division. Inasmuch as the negotiations had reached the stage where the proposed contract was mainly reduced to writing and agreed upon, New Jersey felt morally bound to proceed with the plans outlined, despite the fact that the affirmance had immeasurably strengthened its position. The other parties, despite the fact that they had some chance on a further appeal, had no incentive to run the risk of disturbing the arrangement already made, for their situation was markedly weakened. The final contract was, therefore, made in the form agreed upon before the decision of the Appellate Division (Vol. II, p. 978).

The contracts (numbered 73, relating to foreign patents, and 74, relating to United States patents, p. 18, *supra*), were submitted in final form, but before execution, to the general counsel for New Jersey for his approval as legal contracts and as to matters of form and policy, and then to the Board of Directors as to matters of business. Following their approval, other counsel, Messrs. R. V. Lindabury, John G. Milburn and Walter Taylor, were consulted and not until they had approved were these contracts executed (Vol. II, p. 983). While the approval of counsel does not of course forestall judicial inquiry, it raises at least a presumption that no illegal design or intent was entertained. It would be a sad day for the bar and the public alike if it were otherwise. That presumption is strengthened by the fact that there was no secrecy in the matter—publicity was at once given to it (Vol. II, p. 997).

As to the intent and purpose of New Jersey in entering into these agreements there can be no question. On Septem-

ber 20, 1923, prior to their execution, Howard, of New Jersey, wrote Clark, a member of the Board of Directors of New Jersey, saying that "by virtue of these proposed agreements and grants, there is worked out what seems to all the parties a fair and equitable settlement of the litigation and threatened litigation between the parties" (Vol. II, p. 979). Every single point of controversy which had arisen between the parties in connection with cracking patent matters up to that time was disposed of in the contract; and their only purpose was (Vol. II, p. 979) to

> "dispose of past controversies and to prevent future controversies, and to assure to the Standard Oil Company of New Jersey, so far as my own attitude of mind went, the absolute maximum of latitude in manufacturing operations that they could get. That was the purpose of the contracts".

By these agreements the parties settled all pending and all threatened litigation between themselves. Further, New Jersey assigned to Texas its interest in the Adams patents and obtained for itself and its subsidiary, Louisiana, the right to use the Burton process at a reduced royalty until 1931 and thereafter free. New Jersey gave licenses under its patent rights to Indiana and Texas and authorized each of them to give sub-licenses thereunder *so far as necessary to protect themselves and their licensees in the use of their own processes as defined in these agreements.* New Jersey obtained licenses under the patent rights of the other three primary defendants and the right to grant sublicenses thereunder *so for as necessary to protect itself and its licensees in the use of its Tube-and-Tank Process as defined in these agreements. It did not give any right to anyone else to grant sublicenses for the use of the Tube-and-Tank Process nor did it obtain the right to grant sublicenses for the use of the processes of the other primary defendants, nor any share in the royalties of any other party.* Mutual releases for past infringement were exchanged between New Jersey and the other primary defendants; and New Jersey and the other primary defend-

ants were left free without any restriction in granting licenses under their respective patents to use their respective processes. As in the case of all of the other agreements here involved, there was no price restriction—nothing whatever about prices.

These New Jersey-Texas-Indiana agreements (Nos. 73 and 74) provided that New Jersey and Indiana should license Gasoline Products for its Cross process, and that the latter should license New Jersey and Indiana; this was in fulfilment of the Texas obligation to Gasoline Products (p. 80, *supra*). These licenses were granted by Contracts Nos. 75 and 76 relating to United States and foreign patents (Vol. III, pp. 1772, 1774, Gasoline to New Jersey and *vice versa*), No. 77 relating to foreign patents (Vol. III, p. 1777, Texas to Gasoline Products and *vice versa*) and Nos. 78 and 79 relating to foreign patents (Vol. III, pp. 1792, 1794, Indiana to Gasoline and *vice versa*).

Summary of the agreements, and their effect:

In the contracts just discussed (Nos. 73, 74, 75, 76, 77, 78 and 79 executed in 1923), each of the primary defendants granted to each of the others, and their respective licensees, immunity from suits under its then patents and those acquired prior to 1937, such immunity being confined to the defined processes of the respective parties. Those licenses contain

1. No limitations as to quantity of output;
2. No limitations as to sales in any particular territory;
3. No options to purchase gasoline;
4. No selling price restrictions;
5. No expressed acknowledgment of validity of patents, whether then existing or later acquired;
6. No provisions as to royalty payments by any party for its own operations so long as it continued to use

only its own specific form of the fundamental cracking process, that is, under these agreements Texas was not to pay for use of its Holmes-Manley process, New Jersey was not to pay for use of its Tube-and-Tank process; but New Jersey was to pay Indiana a part of the Tube-and-Tank royalties received from its licensees, and Gasoline Products was to pay Texas a part of its Cross process royalties received from licensees.

If Indiana or Texas wished to practice the Tube-and-Tank process, New Jersey was to grant either or both a license for 5 cents per barrel. If New Jersey wished to practice the Holmes-Manley process, Texas and Indiana were to grant a license at 8.4 cents per barrel.

The foregoing review of all of the seventy-nine agreements shows clearly that there has been no concert of action, no plan, or scheme, tying them together to form one iniquitous whole (see p. 54, *supra*). The twenty-five licenses granted by Indiana under its own patents, and the five assignments of Indiana's foreign patents, and the fifteen licenses granted by Gasoline Products under its own patents, and the four licenses granted by New Jersey under its own patents, had been granted by each of the patent owners individually and separately and with no concert of action whatever—many of them long before any contract whatever existed between any of the primary defendants. The Indiana-Texas cross-license agreement No. 31 was made in 1921 by those two companies alone, with no connection of any kind with the other primary defendants, and before any reason had arisen for any of the later contracts; it merely gave to each of the two parties, and their licensees, the freedom of action which each required. The Texas-Gasoline Products cross-license agreement No. 55 likewise was made by those parties only to meet their own, respective, very urgent needs to protect their respective businesses. The New Jersey-Texas-Indiana agreements Nos. 73 and 74, and the Gasoline Prod-

acts cross-license agreements resulting from them, were, likewise, intended and adapted to give safety to each from present litigious difficulties and future disaster in the businesses of each, respectively.

The evidence clearly shows that, in all of this, each was safeguarding only its own business—not at all that they were conspiring to obtain a monopoly or injure the business of others. The effect of the agreements, from the beginning to the end, was to lessen, more and more, any restrictions created by the patent laws, until, in the later agreements, there were none whatever as between the primary defendants. And they, instead of attempting to obtain a monopoly, granted licenses to many other refiners.

And the royalties which the licensed refiners were to pay, and the provisions concerning those royalties, were entirely proper. This we discuss in connection with our consideration of the opinion of the District Court (pp. 119-122, *infra*).

None of the provisions in the agreements had to do with the price of a commodity, but, so far as a common purpose underlies them, with an effort to relieve *manufacture* from the restriction of patent infringement; and they did not result in any lessening of competition between the primary defendants or between them and others.

The evidence discloses that the petroleum industry in general and the sale and manufacture of gasoline in particular had never been in a more competitive condition than at the time of the filing of the Government's petition and the hearing of this case (p. 44, *supra*). This competition is not only general throughout the industry at large but vigorous and keen as between the primary defendants and their several licensees.

New Jersey at all times has been engaged in most active competition. It owns and operates refineries at Bayonne, Elizabeth and Jersey City, New Jersey; Baltimore, Maryland; Parkersburg, West Virginia and Charleston, South Carolina, and controls a refinery at Baton Rouge, Louisiana, and refineries in Texas. It has marketing stations in New

Jersey, Maryland, Virginia, West Virginia, North and South Carolina and the District of Columbia and, through its subsidiaries, in Louisiana, Arkansas, Tennessee and Texas. In addition to sales through bulk distributing and service stations, New Jersey sells in bulk into all parts of this country where freight rates are such as to permit competition with local sources of supply (Vol. II, pp. 933-935). This means competition in bulk sales with Indiana, Texas, the Standard Oil of New York and many secondary defendants. The New Jersey service stations dealing with the ultimate consumer have, as its president testifies (Vol. II, p. 935):

> "All kinds of competition. It is impossible for me to imagine any business, that is more competitive than the oil business, not only in the particular district in which we are operating, but all over the United States."

Following this testimony, the witness was asked by the Master:

> "Taking as a concrete instance, namely taking your two distributing divisions, Newark and Baltimore, in those territories where you have service stations, can you name some of the other producers and refiners who have service stations in those same localities?"

He replied (Vol. II, pp. 935-6):

> * * * "the Texas, The Gulf, Pan-American Eastern, Pure Oil Company, The Sun Oil Company, the Sinclair Company and the Tidewater and the Atlantic. Those are eight companies that are producers, refiners and distributors of petroleum products. * * *"
>
> "In addition to those eight larger companies there are a great many other sellers and jobbers."

In the Baltimore division, besides the companies just named (Vol. II, p. 936):

> "there is the Mexican Seaboard that imports cargoes of California gasoline, sells it through jobbers there; and there is the Galena Signal Oil Company, which has tankage, bulk tankage in Norfolk I believe, and Richmond, and two or three other points. They bring in cargoes

of gasoline and sell it to the local people who own from one up to a dozen or more service stations. There are a great many service station owners throughout these states who have from one station up, who operate what is known as a string of service stations and they buy sometimes in tank cars, usually in tank cars, from some of the larger companies or from some of these other companies that I referred to as having the facilities to make tank car shipments to them."

And the same conditions exist in other sales territories (Vol. II, pp. 936-7).

The licensees of Gasoline Products are also in active competition with the other primary defendants and their licensees. Gasoline Products had, up to October 1926, granted licenses for the Cross cracking process to 26 refining companies in the United States who had constructed a total of 153 Cross cracking units having aggregate cracking capacity, including units under construction, of 178,200 barrels of charging stock per day (Deft.'s Ex. 521 and 522, Vol. II, pp. 843-4). These Cross cracking units were operated, almost exclusively by refiners in Illinois, Oklahoma, Kentucky, Ohio, Texas, Pennsylvania, Arkansas, Kansas, Nebraska, California, Wyoming, Rhode Island and New York, in direct competition with refineries of New Jersey, Texas and Indiana and their respective licensees. In addition to the competition of these numerous licensees of Gasoline Products, the New Jersey, Texas and Indiana companies faced competition from their own numerous licensees and also from the numerous other refiners listed in defendants' Exhibit 489 employing cracking processes not controlled or licensed by any of the primary defendants (Vol. II, pp. 868, 869, 1022).

As to Texas, that Company is shown to have had a rapid and independent growth, apparently unaffected by any relation created by the agreements under attack except as its development was freed from the burden and jeopardy of patent litigation. By the end of 1919 it had expended or appropriated in the development of gasoline cracking more

than $3,500,000 (Vol. II, p. 897) and prior to 1921 had, in addition to large installations elsewhere, a refinery at Tulsa with 10,000 barrels daily capacity and one at Lockport with 5,000 barrels capacity—both in the so-called Indiana territory. Since the agreement it has built a plant at Casper with 6,000 barrels daily capacity, and another in Colorado with 500 barrels capacity (Vol. II, p. 899). Exhibit 509 shows its marketing facilities as of January 1, 1921—shortly before contract No. 31 was executed, and Exhibit 510, the situation as of September 1, 1925, four years thereafter (Vol. I, p. 896). A comparison of these two exhibits would show that Texas practically covered the so-called Indiana territory after contract No. 31 was executed. Between those years its total output of gasoline rose from 6,500,000 barrels to 14,000,000 barrels—practically a 2½ times increase—and of that, 500,000 barrels was cracked gasoline in 1921 and 7,500,000 barrels in 1924—a fifteen-fold increase (Vol. II, p. 868).

The Texas Company's active competition was, therefore, enormously increased and in no way controlled by the agreements.

Nor have the agreements increased Indiana's proportion of the business. In 1913 that Company had 1,533 stations for vending its products, and there were 161 competitors with 465 such stations; in 1926 Indiana had 7,735 such stations, and there were 8,234 competitors with 19,078 such stations (Vol. II, pp. 992-3). In 1913 the percentage of the total business done by Indiana in its retail marketing territory was about 80%; in 1925 it was about 40% (Vol. II, p. 993). If Indiana set out to obtain a monopoly, the attempt was a dismal failure. These facts certainly furnish strong evidence of the existence of competitive conditions (which is supported by the testimony, Vol. II, pp. 993-4) as did similar facts in *United States* vs. *International Harvester Co.*, 274 U. S. 693, 709.

Further, there is no evidence that the licensees' cost of manufacturing has increased. They, to be sure, pay royal-

ties which must be added to manufacturing cost. But, if, instead of taking licenses, they had gone through the long and expensive work of developing their own processes and designing their own apparatus and installations and learning how most economically and efficiently to operate, how much more would their cost* have been, even eliminating the expense of patent litigation and attendant liabilities? Instead of doing that, they obtained the use of processes developed at the expense of their licensor, and also careful guidance in the installation and operation of equipment (see, for instance, licenses Nos. 49, 64 and 65, Section 2, Vol. III, pp. 1514, 1654, 1668). The best evidence that the licensees profited by their licenses is their continued adherence to the contracts; and they state in their answers filed in this case that the royalties were not onerous (see footnote, p. 46, *supra*). Doubtless each licensee would be pleased if it could obtain the same result without the payment of royalties, just as it would be eager to obtain without cost the crude oil for its refineries, the services of its officers and employees and the transportation of its raw material and finished products. But there is no more reason why the licensees should obtain, without payment, the inventions of the primary defendants than the crude oil or services or the transportation of products.

Nor has the gasoline output been restricted. On the contrary, but for the extension of cracking processes, the supply of gasoline would have been entirely inadequate or would have resulted in an absurd waste of raw material. The introduction of cracking has enabled refiners to turn into gasoline crude oil fractions, such as gas oil, which would otherwise become a drug on the market, if they were limited to the distillation process of the prior art. Defendant's Exhibits 490 and 599 (Vol. II, pp. 870, 1005) show that cracking is largely responsible for the prevention of a gasoline famine. Exhibit 493 (Vol. II, p. 874) shows that in 1914

* It had cost Texas some $3,000,000 for experimentation and building its first plant (Vol. II, p. 897).

the gasoline produced from a barrel of crude was 18.18% of the crude run to the stills, while in 1920 the percentage of gasoline obtained from a barrel of crude was 26.06. Since the only cracking process in use during that period was Indiana's Burton process, Indiana's operation and its action in licensing refiners was manifestly largely responsible for the increase.

To quote from the Report of the United States Bureau of Mines (Ex. 599, Vol. II, p. 1009):

> "According to the best information available, about 28% of the gasoline output of the refineries for 1925 was produced from heavier oils by cracking. This represents a production of approximately 2,824,000,000 gallons of gasoline by the use of cracking processes, as compared with four hundred million gallons in 1918, and one billion gallons in the five year period preceding 1918. In other words, almost seven times as much gasoline was made by cracking in 1925 as in 1918, and almost three times as much as for the five year period preceding 1918. This large production of cracked gasoline has been an extremely important factor in the providing of an adequate supply of motor fuel, as it has greatly increased the amount of gasoline available".

Again (Vol. II, p. 1010):

> "If the gasoline production for 1925 had been obtained entirely by straight distillation of crude oil, the gasoline yield would have been 23.4% * * *, and instead of running 740 million barrels of crude oil to the stills, it would have been necessary to use 740 million, plus 287 million, plus 129 million, or 1,156,000,000 barrels, which amount exceeds the world's production for 1924."

Again (Vol. II, p. 1012):

> "There is probably no one factor that is more important with regard to the future supply of motor fuel than a more extended use of the cracking process in the refineries of the country."

The contracts attacked in this case have facilitated the general use, both by the primary defendants and by the numerous

refiners licensed by them, of the great store of knowledge and experience otherwise available only to the individual primary defendants piecemeal, and have thus facilitated the use by this greatly enlarged group of refiners of modernized methods and apparatus for cracking gasoline and have enormously increased the available supply. The Master found that the public had greatly benefited thereby (p. 47, *supra*).

The table attached to Exhibit 599 (Vol. II, p. 1014) shows a decrease in the average tank wagon price at New York City from twenty-three cents per gallon in 1916 to 19.1¢ in 1925 in the face of an enormously increased demand.

Nor, as we have pointed out at page 25, *supra*, did any secrecy attend the making and carrying out of the agreements in this case. They were given wide publicity and "deliberate guilt—we say deliberate guilt, for it is not a question of ignorance or imbecility—is usually not so bald" (*United States* vs. *United Shoe Machinery Co.*, 247 U. S. 32, 43).

II.

The opinion of the District Court.

It should be noted again that no effort was made by the Court to rule upon the Government's exceptions to the Master's report. The points in which it disapproved the Master's findings can only be gathered from the very general discussion in its opinion and the still more general language in the decree.

The Patents:

As to the patents of the primary defendants, the Court did not "disturb the Master's finding that the patents are valid". It found them to be for improvements, as distinguished from "basic or pioneer patents", but added that "it by no means follows" that they "must be denied a wide

range of equivalency", nor "that they are unimportant or that the inventor did not make a real contribution to the art"; and that even a narrow patent, if valid, "furnishes as sufficient a consideration for a contract based on it as would a pioneer or basic patent, and it is as legitimate a subject of cross-license agreement as is a basic or pioneer patent" (33 F. (2d) 624 and Vol. III, p. 2001).

Further as to the patents the Court said:

> "The *principal* patents of the primary defendants which are the subject of the cross-license agreements may each be practiced without infringing the other. For example, the so-called Burton patents of the Standard Oil of Indiana are not infringed by the Holmes-Manley process of the Texas Company nor the Cross patents of the Gasoline Products Company, nor by the Tube-and-Tank process. Subsequent to the execution of the agreements, each of the primary defendants continued to follow the teachings of its own patent. The processes described in the claims of *many* patents were not adopted by any primary defendant not the owner of such patents. *Some* of the claims of *some* of the patents are not followed by any of the primary defendants" (33 F. (2d) 625-6; Vol. III, p. 2004).
>
> "It is worthy of note that none of the primary defendants use *any considerable number* of the patents of the other" (33 F. (2d) 631; Vol. III, p. 2017).

But, that the use of the inventions of the patents of the primary defendants is necessary, is recognized by the Court when it further says (33 F. (2d) 631; Vol. III, p. 2018):

> "An independent producer, however, could hardly engage in the process of refining gas [producing gasoline] by a cracking process without infringing one or more of the patented cracking processes".

That is, the Court did not disturb the Master's findings in this regard (pp. 33-39, *supra*), but merely held that of the many patents owned by the primary defendants, *some* were

not used either by their owners or by their licensees, but that *some* were used by both.

Incidentally, the fact that *many* of the patents of each primary defendant were not used by other primary defendants *at the time the proofs were taken* does not militate against the desirability or reasonableness of the licenses. They might be used at any time, depending upon the lines to which each defendant's research work led (p. 33, *supra*), and might then become extremely valuable; what a research department desires is unhampered freedom to develop along any and every line (see p. 72, *supra*). This was secured by these licenses in addition to definite freedom from suit on the existing patents which were then being used.

The Court found that "the principal patents of the primary defendants may each be practiced without infringing the other". If this statement means that it is possible to take each "principal patent" and work out some process employing it, but not infringing the patents of another defendant, the finding is quite immaterial to the case, for we are here dealing with the actual processes. If it means that there is no direct conflict between the claims of two defendants, it is likewise immaterial. It cannot mean that the actual commercial processes of one defendant do not infringe the patents of other, for the evidence and findings are to the contrary (*supra*, pp. 37-40, 71, 76, 81, 82).

Continuing, the Court found "Indiana's Burton patents are not infringed by the Holmes-Manley process of Texas, nor by the Cross process of Gasoline Products nor by the Tube and Tank process of New Jersey". Again, the finding is ambiguous in its use of the term "Burton patents". This phrase is used in several ways, sometimes being loosely used to mean all of Indiana's patents, in which case the finding would be manifestly untrue (*supra*, pp. 37-40, 71, 81), sometimes meaning all the patents with which Burton had anything to do as an inventor, in which case it would be equally

plainly erroneous (*supra*, pp. 37-40, 71, 81) and sometimes meaning only the first two or original Burton patents, in which case it is debatable but might be sound, assuming that these patents are entitled to but a narrow range of equivalents. The claims of the two original Burton patents describe operations at about four or five atmospheres of pressure. The other primary defendants' processes operate at much higher pressures and if this limitation in both the early Burton patents is given strict effect, the finding is sustainable, but it has no real bearing on the merits of the present case.

The Court further says that "each of the primary defendants continued to follow the teachings of his own patent". The Court could not have meant to imply that each continued to do this and nothing else, for that would be quite contrary to the evidence. Indiana is largely using the Texas Holmes-Manley process instead of its own Burton process (Vol. II, p. 1018). Gasoline Products obtained for its licensees the right to add, to the Cross process, the "distillation towers" thereby creating an "enlarged process"—"rights which have enabled us to enlarge our process" (p. 21, *supra*); the improved units which were then installed were much more efficient (p. 24, *supra*).

It is true that the Burton process of Indiana, and the processes commercially known as the Tube-and-Tank, the Holmes-Manley and the Cross continued to be used under those trade names, but they embodied and continued to embody not only the patents of Indiana, New Jersey, Texas and Gasoline Products, respectively, but also each embodied the teachings of patents of the other primary defendants (pp. 37-40, 71, 76, 81, 82, *supra*). The process of each individual primary defendant was not completely that of the patents owned by that defendant, but was a process embodying the inventions of those patents *and also* inventions owned by the other primary defendants. The licenses permitted this to be done legally and without risk of an injunction and attendant financial liability.

The Contracts:

The Court examines the contracts—all seventy-nine of which it assumes to be "cross licensing and sub-licensing agreements" (33 F. (2d) 624; Vol. III, p. 2001). This assumption is erroneous (p. 51, *supra*). And, while the Court criticises only a few provisions of certain agreements, its failure to differentiate between the agreements has led it into unwarranted and wholesale condemnation.

The Court quotes excerpts (33 F. (2d) 626-629; Vol. III, pp. 2005-2013) from the following agreements:

No. 31, dated August 26, 1921, between Indiana and Texas.

No. 55, dated January 26, 1923, between Texas and Gasoline Products.

No. 74, dated September 24, 1923, between New Jersey, Texas and Indiana.

The Court does not even condemn the quoted provisions in their entirety but criticises one or more of those agreements in three respects, which we shall consider in their order.

(a) The Indiana Option Clause:

The Court quotes (33 F. (2d) 626; Vol. III, p. 2006) Section 13 of Agreement No. 31 between Indiana and Texas. This section provides that if, up to 1937, the gasoline made by Texas by pressure cracking within the listed States in which Indiana did a retail marketing business exceeds 25% of the gasoline made by Indiana through operations of the same character in the same territory, Indiana shall have an option to purchase one-third of such excess, deliveries to begin within four months after the exercise of the option, the price to be paid for the gasoline being the current wholesale price at the time of delivery. Note that there is, here, nothing in the nature of a penalty; Texas was to be paid at the current market price, which would presumably include its manufacturing profit, and it would have no selling expenses.

As to this option provision, the Court held (33 F. (2d) 629-630; Vol. III, p. 2014):

"Section 13 of Agreement 31 is cited by petitioner as one covenant of this contract which violates the Sherman Act. It obliges the Texas Company to sell, under certain conditions, gasoline by it manufactured to the Standard Oil Company of Indiana. It is not restricted to gasoline manufactured by any process covered by any patent. This covenant clearly violates the Sherman Act.

"A patentee may, as against its agent or licensee, impose conditions respecting sales, the price and the territory whereat and wherein the patented article may be sold. *United States* v. *General Electric Company*, 272 U. S. 476. For the purpose of this argument, it may be conceded that such restrictive covenant may include a commodity which, though not covered by a patent, is the product of a patented process. But such covenant cannot include an unpatented article not made by patentee's patented process or apparatus. The vice of this covenant lies in the fact that there is no restriction as to the commodity which was the subject of the agreement. The product was gasoline manufactured by pressure cracking, irrespective of the process used in producing it.

"The defendants asserted, however, that this covenant never has been and never will be enforced and therefore is of no significance. When this statement was made on oral argument, the court suggested, in order to test the good faith of defendants' assertion, that the parties agree to its elimination. Defendants accepted the suggestion and filed with the court an agreement in the nature of a waiver* of this provision of Agreement 31. To this action, the petitioner strenuously objected, insisting that defendants should not be permitted to avoid the effect of this litigation by an 11th hour withdrawal from previously asserted right to thus contract. Were this the only provision objected to, we would view the litigation as happily ended."

The Court here overlooks the undisputed testimony as to the circumstances under which this contract was made (see

* Vol. II, pp. 736-8, 756-762.

pp. 69-75, *supra*). Indiana claimed that the Texas operations of its Holmes-Manley process infringed Indiana's patents. Texas was advised by counsel that there was grave reason to believe that to be true. The only "pressure cracking" process Texas claimed a right to operate was the Holmes-Manley and, if it did "pressure cracking", it would be by that process. The evident theory upon which the parties contracted was that "pressure cracking" done by Texas would be by a process covered by some of Indiana's patents.

We believe that Contract No. 31, properly construed, confines the option to gasoline made under the license; but it is unnecessary to argue the point because the finding that "this covenant directly violates the Sherman Act" must have been made without consideration or realization of its history in other particulars.

As we have pointed out (pp. 6-7) Indiana had, after years of experimentation and research developed a highly successful pressure cracking process—the first commercially successful one and the only one which was used for some seven years. In granting licenses it was, at first, fearful that, in giving up the monopoly granted by its patents, its business in its marketing territory might be injured. So it proceeded cautiously. Its early licenses were for two and three years only and provided that the licensees should not, in their operations under the license, invade that specified territory. Then it granted licenses for longer periods with the same restrictions. Then it concluded that its fears were groundless, and that there was business enough for all. So, in its contract No. 31 with Texas, it omitted all territorial restrictions as it did in other licenses later granted.

But, at this time, another situation gave Indiana concern as affecting its future. It had no assurance of a supply of crude oil from which to produce gasoline in quantities adequate for the expected growth of its business (Vol. II, p. 1004). It might, in the future, find itself in the position of not having enough gasoline for its own retail customers. Because of these circumstances the option provisions were inserted in the Texas contract at the insistence of Indiana and for its

own protection. The underlying purpose was entirely reasonable and lawful.

The Master has found (p. 42, *supra*) and the record amply supports his conclusions (Vol. II, p. 900) that the condition upon which the option could be exercised did not then obtain. Since the contract was made, Indiana has acquired ample supplies of crude oil, so the reason for the option has ceased and the condition for the exercise of the option has never happened. The option provisions have been cancelled (p. 101, *supra*).

But had this provision becomes operative it would not have restrained trade. Texas was free to enlarge its refining capacity in Indiana's marketing territory. If it did, and if the cracked gasoline manufactured by it exceeded 25% of Indiana's similar production, then Indiana had the option to purchase up to one-third (⅓) of such excess. The price was to be the wholesale market price at the time of delivery. Texas had a perfect right to sell gasoline to Indiana. Having the right to sell, it had the right to make an agreement to sell. Having the right to make an agreement to sell, it had the right to give Indiana an option to purchase. The option clause was a valid agreement without reference to patents. Instead of restraining commerce, it *was* commerce—lawful commerce; and to say that commerce restrains commerce is absurd.

That this was a normal contract under all the circumstances and was entered into for a lawful purpose is not open to question—it exhibits nothing more than sound business prudence.

It has always been held that even exclusive sales contracts, when no monopoly is involved, are valid. The rule is too well recognized to need citation.

No monopoly was accomplished or threatened, by Indiana's option either under Section 13 of Contract No. 31 or in five licenses thereafter issued under the patent rights of both Texas and Indiana (p. 14, *supra*). Indiana's right to purchase cracked gasoline from Texas would arise only if Texas' production of cracked gasoline in Indiana's mar-

keting territory exceeded 25% of Indiana's similar production. If such a situation arose, then Indiana could purchase up to one-third (⅓) of such excess. The option in licenses granted to others under the patent rights of both Texas and Indiana applied only to one-third (⅓) of the cracked gasoline *produced under such license*, that is, to one-third of the business which the licensee became free to do. As the licensee was always a refiner of "straight run" gasoline (made by the old atmospheric distillation process, p. 4, *supra*) and as the gasoline produced from the crude could be doubled by the cracking process, an option on one-third of the cracked gasoline of the licensee amounted at most to an option on only one-sixth of the total gasoline of the licensee. This percentage would be further decreased if the licensee (as he was free to do) also employed some other cracking process.

While the option clause was clearly valid, irrespective of patents, it must also be remembered that Indiana and Texas were cross licensing each other. When Texas, under Contract No. 31, issued licenses to other refiners under the patent rights of itself and Indiana, the option clause inserted in certain of those licenses provided that Indiana might purchase at the market price one-third of the cracked gasoline produced under the license. The option clause, therefore, applied only in cases where the patent rights of Indiana were being licensed. As Indiana could refuse absolutely to issue licenses under its patent rights, it had the right, when issuing them, to take from the licensee, as a part consideration for the grant, an option to purchase a part of the cracked gasoline manufactured under the license. Had Indiana refused to issue licenses at all, no cracked gasoline would have been produced under its patent rights. By issuing a license, Indiana permitted its production, merely reserving an option to purchase one-third of the product. The net result, was to leave the licensee free from any restriction in respect of its straight-run gasoline, and from any restriction in respect of two-thirds of its cracked gasoline. Thus, trade and competition were promoted by putting on the market

without any restriction two-thirds of the cracked gasoline produced by a licensee, none of which could have been produced but for the license.

And, as will be noted from that portion of the decision of the District Court quoted at page 101, *supra*, Indiana now having adequate sources of supply of crude oil, the reason for the option provisions has disappeared, and they have been formally waived. The Government, as the Court points out, insists that such "eleventh hour withdrawal from previously asserted right to thus contract" should not be permitted to affect this litigation. The Government misses the point, which is that the withdrawal is evidence of the fact that there were and are no ulterior motives behind the option provisions, that there was no thought of any restraint on Texas, but only a reasonable effort to safeguard the business of Indiana which, on account of Indiana's subsequent acquisition of an adequate supply of crude oil, needs no such provisions to assure to it continued necessary quantities of gasoline. No option clauses were inserted into licenses granted to or by Gasoline Products nor in the licenses granted by New Jersey, nor in the licenses granted by Texas under only its own patents.

We submit that the conclusions of the Master on this point were right (pp. 41-42, *supra*) and that those of the Court were wrong.

(b) Acknowledgement of Validity of Patents:

The law writes into every license contract an agreement by the licensee not to contest the validity of the licensor's patents.

In *Westinghouse Co.* v. *Formica Co.*, 266 U. S. 342, the Court considered whether the state of the art might be shown in an infringement suit by the assignee of a patent against his assignor to narrow or qualify the claims and relieve the assignor from infringement. The Court said:

> "Of course, the state of the art cannot be used to destroy the patent and defeat the grant, because the

assignor is estopped to do this. But the state of the art may be used to construe and narrow the claims of the patent, conceding their validity." (p. 351).

Pope Mfg. Co. v. *Gormully*, 144 U. S. 224, is not opposed to this principle. There the licensee, as a condition for obtaining a license under certain patents, was required to agree not to contest the validity of other patents *to which the license did not relate.* This was held to be such an unconscionable contract that equity would deny specific performance. But in the instant case the licensee's admission of validity is confined strictly to "the letters patent under which it is or may be licensed," and is, therefore, only what the law itself implies.

In *Indiana Mfg. Co.* v. *J. I. Case Threshing Mach. Co.*, 154 Fed. 365, 370 (C. C. A., 7th Cir.), the Court said:

> "And throughout the valid relationship of licensor and licensee, appellant has the right not only to royalties, but also to appellee's silence respecting the validity and *prima facie* scope of the patents. *Siemens-Halske Electric Co.* v. *Duncan Electric Mfg. Co.*, 142 Fed. 157, 73 C. C. A. 375."

As the law writes into every license an admission, by the licensee, of the validity of the patents under which it is licensed, the question here is whether the expression of what the law implies, is unlawful. Of course, the *reason* for the express statement is that the parties, though not familiar with the law, may fully understand the effect of their contract.

On this branch of the case the District Court held as follows (33 F. (2d) 630; Vol. III, p. 2014):

> "Sections 1, 2, 3 and 4 of this same Agreement 31 [between Indiana and Texas], provide that the contracting parties shall acknowledge the validity of all patents that may be issued to the other 'as and when issued under which it becomes licensed hereunder'. Section 1 of the same agreement defines the term 'patent rights'

as including all patents and pending applications 'and all inventions relating to processes and apparatus for the manufacture of gasoline and other light oils by cracking under pressure, acquired prior to January 31, 1937'. Section 3 grants, each to the other, license to continue to the expiration of any patents included within the aforesaid 'patent rights'.

"These agreements do not expire until seventeen years from January 1st, 1937. Or, stated in another way, the agreement which was made August 26, 1921, protected patents from attack which might be issued as late as January 1st, 1937, and which would not expire until 1954.

"Such agreements cannot be sustained. While a patent is presumptively valid, many of them, although duly issued, are invalid for various reasons. The public, in whose interests the patent laws are enacted (*Kendall* v. *Winsor*, 21 How. 322), is ordinarily protected against the burden of such void patent grants by action of competitors of the patentee who, prompted by motives of self preservation, refuse to recognize these void patents and therefore successfully contest them. The public is therefore relieved of the burden which their existence entails.

"*By these clauses of Agreement 31 and similar clauses in the other agreements*, the parties purchased immunity from attack on their patents. Tying the hands and sealing the lips of the only parties who would ordinarily stand suit and contest the validity of the patents, the primary defendants attempted to fasten on the public burdens which it was not the purpose of the patent law to impose. Such agreements violate the letter and the spirit of the patent law and are contrary to public policy. The far-reaching consequences of such agreements is illustrated by the present case."

This is truly strange and novel. It is unsupported by authority. Nor is it true in point of fact that, as the Court declares, the agreements "tie the hands and seal the lips of the only parties who would ordinarily stand suit and contest the validity of the patents". The Master's report and the record disclose vigorous contests in progress by the owners of the Dubbs process, as well as others (Vol. I, p. 613; Vol. II, p. 862).

The theory seems to be that each refiner is such a *quasi* trustee for the public that he *must* contest, for the possible benefit of all, the validity of patents, and must not take a license to protect his own business; that the public interests are paramount and he *must* put his own business in jeopardy and fight every claim of infringement.* To hold this is tantamount to saying that no one may take a license except under adjudicated patents.

Of course, no such theory is tenable. There is no such compulsion. And no iniquity, in this regard, could possibly exist unless the express admission of validity was in bad faith and merely part of a scheme to give an appearance of validity to invalid patents. That those patents specifically attacked by the Government were substantial, and for very valuable processes has, however, definitely been found (see pp. 35-39, *supra*). Licenses under the others, also, were valuable (p. 33, *supra*).

And that there was no "scheme" in these admissions of validity is clearly shown by a consideration of the contracts themselves—a consideration which the District Court failed to give.

The District Court referred to the clauses admitting validity as "these clauses of Agreement 31 and similar clauses in the other agreements" (33 F. (2d) 630; Vol. III, p. 2015). But let us see where these clauses appear and what they were and whether one can, from them, work out any evil, concerted course of action—or whether the contrary appears.

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* An analagous contention made by the Government in *United States* vs. *American Bell Telephone Company*, 167 U. S. 224, 250, was thus disposed of by the Court:

> "Counsel seem to argue that one who has made an invention and thereupon applies for a patent therefor, occupies, as it were, a position of quasi trustee for the public; that he is under sort of a moral obligation to see that the public acquires the right to the free use of that invention as soon as it is conveniently possible. We dissent entirely from the thought thus urged."

The first three licenses of Indiana (Nos. 1, 2 and 3) and No. 32 contained an admission of validity of *the specific issued patents* under which those licenses were granted. Both Nos. 2 and 3 expired more than thirteen years ago.

Indiana's licenses Nos. 5, 6 (both expired more than thirteen years ago), No. 7 (superseded), No. 8 (expired in January, 1930), No. 9 (expired twelve years ago), No. 10 (superseded), No. 11 and Nos. 12, 13, 14, 16, 17, 18, 19, 20, 22, 26, 27, 28, 29, 30, 45, 48 (in each of which *the licensee has an option to cancel on six months' notice*) contained express admission of validity of the patents, issued and to be issued, under which the licenses were granted. The Indiana-Texas Contract No. 31 contains a similar expressed admission of validity.

In the licenses of Gasoline Products, No. 25 contains an admission of the validity only of the specified patents and of the patents to issue on specified applications; Nos. 43, 44, 47, 50, 51, 52, 53, 56, 59, 60, 61, 62, 63, 66, 67, 68, 69, 70, 71 and 72 provide merely that the licensee will not contest validity of the patents under which the license was granted, during the continuance of the license.

Of the New Jersey licenses, Nos. 49 and 64 contain expressed admission of validity, *the licensee having the right to cancel on six months' notice.*

The following contain *no* expressed admission of validity:

Gasoline Products licenses, Nos. 34, 35, 38, 42, 58.
New Jersey license, No. 36.
Texas-Gasoline cross-licenses, Nos. 55, 77.
Texas-Indiana-New Jersey cross-licenses, Nos. 73, 74.
Gasoline Products-New Jersey cross-licenses, Nos. 75, 76.
Gasoline Products-Indiana cross-licenses, Nos. 78, 79.

Had there been an attempt to tie up the whole industry by admission of validity of patents, the refining licensees, in eighteen of these licenses, would not have been given the option to discontinue the use of the processes and cancel the

licenses; they would have been held to the admission for the full term.

Had there been any such intent, fourteen other of these licenses would not have been granted with no express admission of validity—*and among these fourteen are four of the five cross-license agreements between primary defendants.* Of the cross-license agreements, only No. 31, between Texas and Indiana, contains an express admission of validity. The cross-license agreements between Texas and Gasoline Products, between Texas, Indiana and New Jersey, between New Jersey and Gasoline Products and between Indiana and Gasoline Products contain no such provisions.

This is absolutely inconsistent with, and itself disproves, any intent or result such as attributed by the District Court to the admission of validity clauses. On any ground, whether of law or fact, the Court's sweeping condemnation is utterly unjustified.

(c) The royalties and alleged price fixing:

The District Court, again evidencing a lack of familiarity with the contracts, held (33 F. (2d) 630; Vol. III, p. 2015):

> "Further attack upon this agreement [No. 31, between Texas and Indiana] is made because of the effect of subsequently executed agreements, which not only dealt with royalties, but *enlarged the scope of this agreement* by including other defendants who were large producers and refiners of gasoline. Agreements 55 and 74 include the other two primary defendants, the Standard Oil of New Jersey and the Gasoline Products Company. Section 8 of Agreement 55 obligated the Texas Company to open negotiations with the Standard Oil of Indiana and Standard Oil of New Jersey '* * * to the end of acquiring for the Gasoline Products Company the right of conferring upon its licensees, present and future, in addition to the non-exclusive license under the patent rights of the Texas Company a similar non-exclusive license from the Standard Oil Company of Indiana and the Standard Oil Company of New Jersey.'
>
> "Agreement 55 dealt with and fixed the royalties which were to be charged, and provided for a division of

these royalties between the primary defendants. The plan is made more effective by the two other agreements, 73 and 75, the first being between Standard Oil Company of New Jersey, Standard Oil Company of Indiana and the Texas Company and the latter agreement being between the Standard Oil Company of New Jersey and the Gasoline Products Company.

"In determining their validity, these various agreements must be read together. They interlock. *Swift & Co.* v. *United States*, 196 U. S. 396. Viewed as one, they present a situation where *the primary defendants not only fixed royalties as between themselves but for their sub-licensees, and provided for a division among themselves of the moneys received from such royalties.*

"There appears no logical relation between the protection which attached to the exclusive *right* which arose from the issuance of the patents and the agreements which the holders of the patents generally entered into. The agreements therefore transcend what was necessary to protect the patents and come within the prohibition of the Anti-Trust Act.

"It may be conceded that A may fix the royalty which he shall exact from B as arbitrarily as he chooses. Such patentee may even, within a limited field, grant such licenses upon condition that his competitor execute to him a license to use said competitor's patented process. But such patentees may not, when to a larger degree they dominate the trade, enter into *an agreement for the pooling of their royalties, and thereby increase the tribute exacted from the users.*

"To illustrate: A has a valid patent used by numerous licensees. B has a valid patent which other licensees use. Notwithstanding A and B each has a monopoly, there is competition. But it would be a plain violation of the Anti-Trust Act for A and B, thus having certain monopolies which are in competition one with another, to *combine to eliminate competition between their monopolies and impose or maintain burdens* which would exist, not by virtue of the monopolies, *but by virtue of the agreements dealing with their monopolies as property.*

"*It is in this respect* that these various agreements step outside the limits of lawful monopolies which arose from the issuance of the patents. The patent monopoly

itself is a property right, and *agreements* in respect thereto must be subject to the same anti-monopoly tests as any other property rights.

"There is no substantial difference between agreements entered into by competing packing companies respecting the prices at which, or territories wherein, their products may be sold and an agreement between holders of patent monopolies which *fix the rates of royalties that shall be charged to licensees.*

"In fact, we may go further and say that *pooling agreements between holders of patents whereby royalties are fixed and the division of proceeds derived from royalties provided for are within the condemnation of the Sherman Anti-Trust Law.* True, in such cases, the court must inquire into the effect and extent of such agreements. But, if the evidence, as here, discloses a domination of the trade and *an additional burden by virtue of the agreement,* the Act is violated. And there can be no legitimate question respecting the extent of the domination by the primary defendants. Whether we accept petitioner's version of the testimony or the defendants' statement of the extent to which these defendants dominate the industry, the conclusion must be the same. In either case the percentage is so large as to necessitate the conclusion that *the royalties materially and substantially affect the price of gasoline.*

"In so far as these agreements are license agreements, they are unobjectionable. To the extent that they go beyond license agreements, they are subject to the inhibitions of the Sherman Act.

"It is worthy of note that none of the primary defendants use any considerable number of the patents of the other. This is established by the admission of the defendants. An independent producer, however, could hardly engage in the process of refining gas by a cracking process without infringing one or more of the patented cracking processes. One such refiner might infringe the process of one primary defendant while another independent refiner would run afoul of another patent. Under these circumstances, the holders of the patent, *in fixing royalties by agreement, are in effect and for all practical purposes, entering into an agreement to fix prices.* For it is affirmatively established that the royalties fixed *in* the agreements and main-

tained *by* the agreements is a substantial part of the cost of refining. In fact, the evidence justifies a finding that such royalties nearly equal and sometimes exceed the profits of outside refiners.

"If, then, the royalty charges directly affect the price at which the commodity can be produced, and if the agreements have for their object or for their necessary effect the fixing and maintaining of royalties, they cannot be distinguished from other agreements which have been condemned, the purpose or necessary result of which was to fix the price of a commodity."

Let us see what the facts are.*

First, it is untrue that the "subsequently executed agreements * * * enlarged the scope of this agreement", namely, Agreement No. 31 between Texas and Indiana. In no way were the subsequent agreements between primary defendants brought under Agreement No. 31; and in no way were the provisions of that agreement brought into those subsequently executed agreements—Texas had to make an entirely new deal with Indiana in order to confer rights on Gasoline Products under Indiana's patents in pursuance of Agreement No. 55. There is no connection whatever between them. The provisions of Agreement No. 31, as to the Indiana option, the admission of validity of patents and the royalty provision never got into or affected the other agreements between primary defendants.

The only primary agreements bearing on royalties are the Indiana-Texas Agreement No. 31, the Texas-Gasoline Products Agreements Nos. 55 and 77, and the New Jersey-Texas-Indiana Agreement No. 74.

Agreement No. 31, between Indiana and Texas (Vol. II, p. 1315) provided that each party granted non-exclu-

* We are, at the moment, discussing the facts only. There is the additional legal proposition that the Sherman law deals only with restraints on interstate commerce, that the granting of licenses is not commerce, that restrictions on licensing are not restraints of commerce and that the collection and division of royalties is not commerce. See pp. 122-130, *infra*.

sive licenses to the other (Section 3) and each party obtained the right to grant licenses to others *under the patents of both* (Section 6). *There is nothing in the agreement restricting the freedom of either party to grant licenses under its own patents upon whatever terms it chooses;* the Texas Company availed itself of this right in licensing Gasoline Products in Contracts Nos. 55 and 77 (Vol. III, pp. 1579, 1777).

But when licenses were to be granted by either, under the patents of the other, it was natural and proper that such other, under whose patents licenses were thus to be granted, should have some voice in determining what it should receive for such licenses. So it was provided in the Indiana-Texas agreement (Section 6) that licenses by either, under the patents of *both*, should be on terms and conditions mutually agreed upon; and (Section 8, next to last paragraph) that each should receive one-half of the royalties paid under such licenses.

That provision referred to licenses to be granted, *under the patents of both*, to other than then existing licensees. Texas had then granted no licenses under its patents. Indiana had many licenses outstanding under its patents. So it was provided, with reference to Indiana's then existing licensees, that Indiana should have the right to tender to those licensees rights under the Texas patents (Vol. II, p. 1317, Section 4) and that Indiana should pay Texas one quarter of the royalties received up to 1937 and one half thereafter, a somewhat modified arrangement being provided for in the case of the Utah Oil license (Vol. II, p. 1318, Section 8). As Texas was to receive one quarter of the royalties from Indiana's then existing licensees to whom rights under Texas patents were to be tendered, it was naturally interested in being assured that Indiana would not so modify those licenses that Texas would receive little or nothing; so it was provided (Vol. II, p. 1314, Section 5) that Indiana would not, without consent of Texas, reduce the royalty below a stated amount. So long as Texas received its one quarter of the royalties paid by those to whom rights under its patents were tendered,

it agreed not to sue those licensees for infringement of its patents (Vol. II, p. 1317, Section 4).

The situation under this Contract No. 31 then, is that Indiana and Texas may each continue to grant licenses under their own patents on any terms; each is free to grant licenses under the patents of the other, also, but each was, naturally, unwilling to give to the other uncontrolled discretion as to the terms upon which its own property might thus be dealt with. Each reserved some control over the royalties to be paid when licenses were granted by the other under the patents of the first. This is not a case in which a patentee has bargained away or relinquished his right to fix royalties for licenses under his patents. Just the opposite—he expressly reserves his right to fix royalties.

The second of the cross-license agreements between primary defendants, bearing upon royalty rates, is No. 55 between Texas and Gasoline Products (Vol. III, p. 1579). The circumstances leading up to and bringing this contract into existence are reviewed at pages 76-79, *supra*. Here, the Cross process of Gasoline Products is defined as one involving (among other particulars) a pressure of at least 425 pounds (Section 5) and Gasoline Products is authorized to grant non-exclusive licenses under the Texas patents to its present and future licensees for the practice of the defined Cross process; and Gasoline Products agrees not to sue Texas or its licensees for infringement of patents in the use of processes operated entirely below 450 pounds pressure. Texas agrees to attempt to obtain from Indiana and New Jersey rights to Gasoline Products to extend licenses, under *their* patents, to Gasoline Products' licensees for the Cross process.

For all of this, Texas was to receive (Sections 7 and 8) the following payments from Gasoline Products:

> (a) From royalties received by Gasoline Products from then *existing licensees* to whom Gasoline Products extended rights under Texas patents, two cents per barrel of oil charged into the stills, or 30% of the collections. As we pointed out at pages 21-23, *supra*, Gasoline

Products so extended rights to its existing licensees by letters of May 18, 1923, without any increase in royalties to be paid by those licensees, but an additional royalty of two cents per barrel if the licensees used certain additional "end processes."

(b) From royalties received by Gasoline Products from *future licensees* to whom Gasoline Products extended rights under Texas patents, 2.4 cents per barrel of stock charged or 30% of the royalties collected. In granting these new licenses Gasoline Products charged royalties fixed solely by itself and not pursuant to any requirement by Texas.

(c) If and when Texas succeeded in obtaining for Gasoline Products rights under Indiana and New Jersey patents, Gasoline Products was to pay Texas an additional fraction of Gasoline Products' collections from its licensees; for the Indiana rights, 1.2 cents per barrel charged or 10% of collections and, for New Jersey rights, 9 tenths of a cent per barrel charged or 10% of collections. To its existing licensees, these rights under New Jersey patents were extended by letter of October 1, 1923 without additional royalty (pp. 23-24, *supra*).

It will be noted that the aggregate of the minimum payments required to be made by Gasoline Products from royalties collected from its licensees, to Texas, for rights under the patents of Texas, Indiana and New Jersey, was 4.5 cents per barrel, which was less than the standard royalty rate of 6 cents per barrel charged by Gasoline Products for licenses under its own patents alone. Contract 55, therefore, could not possibly be said to fix the royalty rate to be charged by Gasoline Products to its licensees.

The third and last agreement dealing with payments between primary defendants and sharing in royalties, is Contract No. 74 between New Jersey, Texas and Indiana (Vol. III, p. 1749) analyzed at pages 80-88, *supra*. In this agreement, the New Jersey Tube-and-Tank process, the Texas Holmes-Manley process and the Indiana Burton process were defined (Section II). Each party (and its licensees, respectively) was, in the practice of its own defined process, granted immunity from suits under the patents of any other without the payment of royalty, the cross

licenses being deemed sufficient consideration; if, however, Indiana or Texas practiced the New Jersey Tube-and-Tank process, it was to pay 5 cents per barrel of oil throughput, and if New Jersey practiced the Texas Holmes-Manley process it was to pay 8.4 cents per barrel—but such royalties were not to be divided in any way (Section III).

New Jersey, for the right to extend immunities to licensees, that is, for its right to free its licensees from suit under patents of the other parties, was to pay Indiana one-half of royalties received from those to whom it extended licenses under Indiana and Texas patents, or 5 cents per barrel of oil throughput (the 5 cents to be reduced if the Indiana or Texas rates to others were reduced). Indiana, in turn, under Contract No. 31, was to pay to Texas one-fourth of what it received from New Jersey under its Burton license, which amount was to be repaid by Texas to Standard Development Company, a subsidiary of New Jersey. This was because New Jersey, due to its decreed part ownership of the Adams patents which Texas had thought it owned completely (see pp. 83-85, *supra*) did not propose that Texas should keep any monies paid to it by Indiana by reason of New Jersey's Burton operations.

Note that in none of these contracts was there any agreement as to what royalties should be charged by any party for licenses under its own patents. At one time, the Government urged that Contract No. 74 fixed the rate which New Jersey should charge, pointing to the following language in Section VII of that contract (Vol. III, p. 1754):

> "In the case of *existing license contracts* made according to the plan and at the rate of Exhibit D, attached hereto, such payment shall be subject to being returned to Jersey for return to the licensees to the extent and under the conditions provided in Exhibit D,"

which was a *form* of the *existing license* issued by New Jersey through its subsidiary the Standard Development Company. The Government, however, asserted that this was not only an agreement upon a form of license *to be* used by New Jersey but constitutes also a fixing of the royalty rate for New Jersey licensees.

But it is a far cry from the clause: "In the case of *existing* license contracts made according to the plan and at the rate of Exhibit D, attached hereto," to the conclusion of the Government that Exhibit D is an "approved form of license for use by New Jersey, agreed upon by Texas, Indiana and New Jersey" which "fixes the royalty rate for New Jersey licensees." There is no language in Contract No. 74 which indicates that the parties approve of Exhibit D as a form of license required to be used by New Jersey. There is nothing which binds New Jersey to use this form of license in the future.

The specific reason for the provision just quoted in Contract No. 74 was that Standard Development had issued a license to the Vacuum Oil Company, Contract No. 65 (Vol. III, p. 1667) identical in form with Exhibit D. This license provided for a royalty of $100,000 per unit for each unit having a specified daily capacity. It further provided, in Clause 8, that part of this royalty was to be returned to the licensee if it should thereafter be adjudged to infringe any letters patent of the United States by operating the licensed process. As New Jersey was agreeing to pay Indiana one-half of the royalties received from its licensees, it was necessary to provide for repayment by Indiana to New Jersey in case New Jersey should be called upon to reimburse a licensee.

Summarizing the situation with reference to the agreements in so far as they relate to royalties and the division thereof:

(a) each party remained free to grant licenses under its own patents on any rates of royalty it chose;

(b) if Indiana or Texas granted licenses under the patents *of the other*, it could grant such licenses on only such terms as the patent owner might approve; each was to pay the other some portion of the royalty received.

(c) if Gasoline Products granted immunities, under the patents of Texas, Indiana or New Jersey, to users of its Cross process, it had to pay to Texas some portion of the royalties received;

(d) if New Jersey granted immunities under the patents of Texas and Indiana, to users of its Tube-and-Tank process, it had to pay to Indiana some portion of the royalties received;

(e) Gasoline Products does not share in any royalties paid to others;

(f) New Jersey does not share in any royalties paid to others.

From the foregoing, it will be seen that the District Court plainly erred in the following particulars:

1. The Court states that "Agreement 55 dealt with and *fixed the royalties which were to be charged,* and provided for *a division of these royalties between the primary defendants.*" No. That agreement was solely between Texas and Gasoline Products and did not in any way fix the royalties to be charged by Gasoline Products, or by Texas, either for licenses under its own patents alone, or for licenses under other patents also; it fixed only the amounts to be *paid by Gasoline Products to Texas* for the right to extend immunities to its licensees under patents of Texas, Indiana and New Jersey—indeed Gasoline Products extended those immunities to all its then existing licensees without making any charge for them. And Agreement No. 55 did not provide for a division of the payments from Gasoline to Texas "between the primary defendants." It made no provision for any division.

2. The Court states as to Agreements 31, 55, 73, 74 and 75 that, "viewed as one, they present a situation where the primary defendants not only *fixed royalties* as between themselves but *for their sublicensees,* and provided for a *division among themselves* of the moneys received from such royalties;" they are agreements "for the *pooling* of their royalties", and "*fix the rates of royalties* that shall be charged to licensees", and are "*pooling agreements* between holders of patents whereby royalties are fixed and the division of proceeds derived from the royalties provided for." No. As we have pointed out above, neither Gasoline Products nor New

Jersey share in any division of royalties. Nor is there any fixing of royalty rates to be paid by sub-licensees except in Agreement No. 31, between Texas and Indiana, and then only in case one of the parties issues a license under the patent rights of *both*.

What then, becomes of the charge that these primary defendants (Texas, Indiana, Gasoline Products and New Jersey) conspired together to fix rates of royalties for sub-licensees, and to pool and divide the receipts from those licensees? The District Court could never have come to the view that any such conspiracy existed had it had a full understanding of the contracts.

The idea of the District Court that by these contracts, viewed as a whole, royalties to sub-licensees were fixed by agreement, having been basically erroneous, there disappears also from the case its expressed view that the agreement as to royalty rates amounted to the fixing of prices for a commodity.

The royalties, as a matter of fact, do not appear to have been burdensome (see pp. 45-56, 94, *supra*), and the answers of the secondary defendants insist that they were not.* The licenses granted solely under Indiana patents, were either at a royalty rate of 0.4 cents per gallon charged into the still or one-fourth of the profits; and, in sixteen of them, the licensee had a right to cancel on 60 days' notice; and none cancelled. The New Jersey licenses granted under its patents alone were at a royalty of 10 cents per barrel of oil charged into the stills, and none were cancelled by the licensees. Texas granted licenses for the operation of its more efficient Holmes-Manley process under the patents of both Texas and Indiana at the same rate of royalty previously

* If the royalties had been burdensome, there would have been protests; and there were none. If the Government were right in its view as to the royalties, then, as this Court said in *United States* vs. *U. S. Steel Corporation*, 250 U. S. 417, 449, "the situation is indeed singular, and we may wonder at it, wonder that the despotism of the Corporation, so baneful to the world in the representation of the Government, did not produce protesting victims."

charged by Indiana for the operation of the Burton process under its own patents alone, and granted licenses under the Texas, Indiana, Gasoline Products and New Jersey patents at the rate previously charged for a license under Texas and Indiana patents only. Nor did Gasoline Products, in extending to its licensees immunities under the patents of the other primary defendants, increase its royalty rates to its then existing licensees; for future licenses, it did increase its rate but gave the licensees a greatly enlarged and more economical process, features of which were covered by patents of the other primary defendants and not by its own patents. And the Master has specifically found that the royalties were reasonable (pp. 45-46, *supra*).

On what possible theory can it be claimed that if X by a single document is licensed to use the patents of A and B, A and B may not divide the resulting royalty and as a necessary incident may not agree in advance upon the basis of that division?

The District Court, however, said that "there is no substantial difference between agreements entered into by competing packing companies respecting the prices at which or territories wherein their products may be sold and an agreement between holders of patent monopolies which fix the rate of royalties that may be charged to licensees." On the contrary, the difference might well be said to be too obvious for argument. In the Packing Case (*Swift & Co.* v. *United States*, 196 U. S. 375) the unlawful restraint was imposed directly upon commerce itself; it was that "for the sake of which the several specific acts and courses of conduct are done and adopted"; whereas, here, the agreements relate not to commerce but to the use of patented processes (pp. 122-130, *infra*). In the Packing Case, the prices fixed by agreement are the prices of goods severally owned by the conspirators; here the only fixation is upon the combined grant of processes owned by the agreeing grantors.

Finally, the statement by the Court that the royalties are a substantial part of the cost of refining and sometimes exceed the profits of outside refiners, finds no support in the evidence.

The Master (p. 46, *supra*) expressly found to the contrary, and not a single witness has been produced by the Government to complain that his royalties were burdensome. And there is no proof that the royalties had any effect on the price of gasoline.

Having dealt with the specific criticisms directed by the Court below to the several agreements, we pass to a consideration of the applicable law.

III.

Legal Principles Involved.

The case appears complicated not because any strange and unusual or involved things were done but merely because we are dealing with a large number of contracts made at various times between January 1914 and October 1923—a period of ten years. A proper understanding and appraisal of their validity requires a knowledge of the position and necessities of the parties as they existed when each contract was made. In the foregoing pages we have attempted to state the complete situation. We have referred, in passing, to but a few authorities, believing that, if the facts are understood, no elaboration of legal argument is necessary. The governing principles are few in number and settled by precedent.

1. The Sherman Act is directed only against arrangements affecting interstate and foreign commerce, and not against licenses, as such, nor against agreements relating solely to production.

The Sherman Act by its express terms and by judicial decision is directed solely against contracts, combinations or conspiracies in restraint of *interstate or foreign commerce* and monopolies or attempts to monopolize such commerce.

See

Swift & Co. v. *United States*, 196 U. S. 375, 396.
United States v. *Patten*, 226 U. S. 525, 542.

United Mine Workers v. *Coronado Co.*, 259 U. S. 344;
United Leather Workers v. *Herkert*, 265 U. S. 457.

The granting of licenses under patents is not commerce. A patent itself confers nothing but the right to exclude others from the use of the invention; and a license under a patent is merely an agreement not to sue and is a defense to an infringement suit.

Patent licenses are closely analogous to insurance policies which are agreements to indemnify. The Court has repeatedly held that insurance is not commerce.

Paul v. *Virginia*, 8 Wall. 168;
Ducat v. *Chicago*, 10 Wall. 410;
Liverpool etc. v. *Massachusetts*, 10 Wall. 566;
Philadelphia Fire Association v. *New York*, 119 U. S. 110;
Hooper v. *California*, 155 U. S. 648;
Noble v. *Mitchell*, 164 U. S. 367;
New York Life v. *Cravens*, 178 U. S. 389;
Nutting v. *Massachusetts*, 183 U. S. 553;
New York Life v. *Deer Lodge County*, 231 U. S. 495.

Dealing in the purchase and sale of foreign bills of exchange is not commerce (*Nathan* v. *Louisiana*, 8 How. 73), nor is the business of immigrant agencies (*Williams* v. *Fears*, 179 U. S. 270), nor are contracts for the future delivery of cotton (*Ware & Leland* v. *Mobile County*, 209 U. S. 405), nor is receiving deposits of money for safekeeping and forwarding and general banking (*Engel* v. *O'Malley*, 219 U. S. 128)—all of the cases cited in this paragraph were cited with approval in *New York Life* v. *Deer Lodge County*, 231 U. S. 495.

Patent licensing not being commerce, we are not concerned with restraints on licensing nor with other restraints contained in the licenses unless the necessary and direct effect of the agreements is to restrain interstate commerce in some

commodity, such as gasoline, to an unreasonable extent or unless their actual effect has been to restrain commerce to an unreasonable extent.

The Master found that the agreements did *not* in fact restrain or monopolize commerce (Vol. I, pp. 612-3, 660-663). Prices have not been raised; supply has not been obstructed; competition has not been in any way diminished—in short not one of the results at which monopoly aims has been attained or even attempted.

Where a contract relates solely to manufacture or production its effect upon interstate commerce is indirect (*United States* v. *E. C. Knight Co.*, 156 U. S. 1; *Hammer* v. *Dagenhart*, 247 U. S. 251, 272; *Delaware, Lackawanna & Western R. R. Co.* v. *Yurkonis*, 238 U. S. 439; *United Mine Workers* v. *Coronado Co.*, 259 U. S. 344; *United Leather Workers* v. *Herkert*, 265 U. S. 457), and it is not prohibited by the Sherman Act unless the same is but part of a further plan to hinder, restrain or obstruct interstate commerce (*United Mine Workers* v. *Coronado Co.*, 259 U. S. 344; *Coronado Co.* v. *United Mine Workers*, 268 U. S. 295; *Loewe* v. *Lawlor*, 208 U. S. 274; *Eastern States Retail Lumber Dealers Association* v. *United States*, 234 U. S. 600), and in such case the intent to hinder, restrain, obstruct or monopolize interstate commerce must appear either by direct evidence or as an obvious consequence of what is to be done. (*United Mine Workers* v. *Coronado Co.*, *supra*; *Hopkins* v. *United States*, 171 U. S. 578; *Anderson* v. *United States*, 171 U. S. 604; *Crescent Cotton Oil Co.* v. *Mississippi*, 257 U. S. 129, 136.)

Thus, monopoly of manufacture, if that alone be established (as it is not), is not sufficient to bring these contracts, whereby it is alleged that "their [the primary defendants'] patents and asserted rights were effectively pooled," within the Sherman Act. The restraint or monopolization of *interstate commerce* must be shown.

If the Government's charges in the present case are to be upheld, it must be upon the ground that the contracts

are within the purview of the Sherman Act. This cannot be true, however, unless the contracts (a) directly affect interstate commerce or, if their effect is indirect only, (b) are part of a larger plan to restrain or monopolize such commerce.

That the contracts do not deal at all with the subject of interstate commerce or profess to directly affect it, would seem to be clear from their face. Taking Contract No. 74 (Vol. III, p. 1749) as an example, it will appear that this contract—

(1) Undertakes to define the existing commercial processes of the several parties.

(2) Exchanges cross licenses whereby each party gives to the other licenses under its patents rights so far, and so far only, as the same are necessary to the operation of the defined process of the licensee; with the right on the part of each licensee to issue sublicenses so far as may be necessary to protect its licensees in the use of its own cracking processes as therein defined.

(3) Agrees that Indiana or Texas may obtain a license from New Jersey for the Tube-and-Tank Process on a royalty of 5 cents per barrel of throughput, and New Jersey may obtain a license from Texas and/or Indiana for the Holmes-Manley Process on a royalty of 8.4 cents per barrel of fresh charge.*

(4) Interchanges releases of all claims growing out of any prior infringement.

(5) Agrees upon the payment to Indiana of one-half of any royalties New Jersey collects from its licensees, specifying, however, no minimum sum except that, if any additional licenses be granted by New Jersey, for the Tube-and-Tank Process but under the patents of Texas and Indiana, the latter's share shall be not less than 5 cents per barrel.

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*Owing to the different origin and nature of the operations, different methods of figuring royalties had grown up; total throughput being used as a measure in one case (and only the fresh or make-up constituents considered) and gasoline produced, in others.

(6) Provides that that portion (¼) of New Jersey's Burton royalty payments which Indiana was currently paying to Texas, should be returned to New Jersey by Texas. The payment had been originally agreed to by Indiana in 1921 to protect New Jersey from attack by Texas on the Adams Patents. New Jersey had protected itself and now demanded for itself this compensation which Texas had been receiving. The payment was made, in the first instance, to Indiana because the pre-existing contract with Indiana required such payments. This method allowed the accounting under the original contract to proceed in accordance with the terms of that contract.

(7) Finally as a part of the settlement New Jersey agreed to grant a license to Gasoline Products (which it did in Contract No. 76), New Jersey at the same time obtaining a license from Gasoline Products, by Contract No. 75.

In these contracts not only is there no restraint upon any patent owner in the use of his patent, no agreement to fix the price of licenses to sub-licensees and no provision which restricts any of the parties from granting a license under its own patent rights to whomsoever it chooses for any consideration or for no consideration, but, also, there is no agreement whatever as to the amount of gasoline which the parties themselves will manufacture or which they will permit their licensees to manufacture; no agreement to divide territory between themselves or between their licensees; no agreement as to the price at which the manufactured article shall be sold; no agreement as to the parties to whom or the place where the product shall be marketed, and nothing whatever to prevent the most active competition between the parties in the business of manufacturing and selling gasoline.

These considerations dispose of the cases on which the Government relied before the Master and in the Court below to support its contention that "combinations of competing patents fall within the prohibitions of the Sherman Act". The arrangements denounced in those cases

went far beyond mere cross licensing between the owners of the patents involved. Thus in *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.*, 166 Fed. 555, the plan contemplated the maintenance of price, the pooling of profits, the elimination of competition and the restraint of improvements. In *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20, each licensee bound himself to sell no "seconds", to sell only to jobbers who signed a re-sale price agreement, and not to sell below fixed prices and terms.

In all the *National Harrow* cases, cited by the Government, the corporation was to fix the prices at which harrows were to be sold. In *United States* v. *New Departure*, 204 Fed. 107, the defendants were charged, among other things, with agreeing upon and maintaining prices for products manufactured by the corporate defendants; establishing uniform and noncompetitive discounts; selling the manufactured products at noncompetitive prices, etc. In *United States* v. *Motion Picture Patents Co.*, 225 Fed. 800, the defendants, manufacturers and importers, combined to act as a unit in dealing with film exchanges and theatres. No exchange was allowed to have films and no theatre was allowed to exhibit them, unless all the defendants consented. No one was allowed to be on the approved list unless he bought all his supplies from the defendants. In *Vulcan Powder Company* v. *Hercules Powder Company*, 96 Cal. 150, 31 Pac. 581, the defendants agreed not to ship to states east of the Rocky Mountains and that in the western states each company would sell only a given quota; there was a standing committee which had power to fix the selling prices to be observed by all. In *State* v. *Creamery Package Mfg. Co.*, 110 Minn. 415, 126 N. W., 126, the object of the defendants was to eliminate competition in the manufacture and sale of butter making machines and creamery supplies, and to fix the prices of the same. In view of the decisions of this Court in *United States* v. *Winslow*, 227 U. S. 202 and *United States* v. *United Shoe Machinery Co.*, 247 U. S. 32, the authority of *United Shoe Machinery Co.* v. *La Chapelle*, 212 Mass. 467, 99 N. E. 289, at best, is doubtful.

But the agreements in suit relate solely to the manufacturing activities of the defendants. Even these they approach only by making it possible to employ without danger of liability for damages, certain methods which otherwise might have involved them in litigation. They have no relation whatever to the commercial activities in which the defendants or any one of them may engage, nor is the course, price or disposition of the manufactured product, once it has entered the channels of interstate trade, controlled by them in any manner. That the Sherman Act has nothing to do with patents as such is obvious. It is equally clear from the decisions of the Courts that the field of manufacture is beyond Congressional control. In *United Mine Workers* v. *Coronado Co.*, 259 U. S. 344, this Court said (pp. 407-8):

> "Coal mining is not interstate commerce, and the power of Congress does not extend to its regulation as such. In *Hammer* v. *Dagenhart*, 247 U. S. 251, 272, we said: 'The making of goods and the mining of coal are not commerce, nor does the fact that these things are to be afterwards shipped or used in interstate commerce, make their production a part thereof. *Delaware, Lackawanna & Western R. R. Co.* v. *Yurkonis*, 238 U. S. 439.'"

In *National Association of Window Glass Mfrs.* v. *United States*, 263 U. S. 403, this Court said (p. 411):

> "This agreement does not concern sales or distribution, it is directed only to the way in which Union labor, the only labor obtainable it is true, shall be employed in production. If such an agreement can be within the Sherman Act at least it is not necessarily so."

Nor under the evidence in this case is the position of the Government strenghtened by the claim that these agreements, although an indirect restraint on interstate commerce, are in fact part of a larger plan. This claim fails utterly for want of proof. In *United Mine Workers* v. *Coronado Co.*, *supra*, Mr. Chief Justice Taft, speaking for the Court, says (p. 408):

> "Obstruction to coal mining is not a direct obstruction to interstate commerce in coal, although it, of

course, may affect it by reducing the amount of coal to be carried in that commerce. We have had occasion to consider the principles governing the validity of congressional restraint of such indirect obstructions to interstate commerce in *Swift & Co.* v. *United States*, 196 U. S. 375; *United States* v. *Patten*, 226 U. S. 525; *United States* v. *Ferger*, 250 U. S. 199; *Railroad Commission of Wisconsin* v. *Chicago, Burlington & Quincy R. R. Co.*, 257 U. S. 563; and *Stafford* v. *Wallace*, 258 U. S. 495. It is clear from these cases that if Congress deems certain recurring practices, though not really part of interstate commerce, likely to obstruct, restrain or burden it, it has the power to subject them to national supervision and restraint. Again it has the power to punish conspiracies in which such practices are part of the plan, to hinder, restrain or monopolize interstate commerce. *But in the latter case, the intent to injure, obstruct or restrain interstate commerce must appear as an obvious consequence of what is to be done or be shown by direct evidence or other circumstances.*"

It is submitted that in the present case there is nothing in the circumstances or declarations of the parties to sustain the contention that these contracts were entered into with intent to interfere with, restrain or monopolize interstate commerce. On the contrary, the evidence shows that the purpose was a settlement of all patent conflicts, present and prospective, so that the parties might be free to continue to develop their cracking processes and their licensees might manufacture free of litigation.

Freedom, not restraint, was the desired goal. And greater freedom is the inevitable result of every non-exclusive license —it tends to break down the restriction imposed by patents.

The Government, however, is astute to look behind the facts in order to find some motive other than that which patently appears. It reasons somewhat as follows: These patents are either invalid or, if valid, do not conflict; the expert advisers of the several defendants were quite wrong in holding to the contrary; any litigation brought by one of the parties against any other must have terminated adversely to the plaintiff; each of the defend-

ants ought to have known this, and therefore, they must have had some other motive for making these cross license agreements; and that motive can only be found in an intent to monopolize trade and defy the law. Of this argument it is enough to say that in the light of the record it is fantastic.

This is emphasized by the fact that both the Master and the District Court found that the defendants were right in treating the conflict and threatened conflict of patents as very serious and substantial matters.

2. The Sherman Act is directed only against undue and unreasonable restraints; and whether restraints are undue or unreasonable is to be determined from a consideration of all the surrounding facts and circumstances.

Not all restraints, of course, are obnoxious to the law. *Every* contract restrains the future conduct of the parties to it. Only those restraints are forbidden by the Sherman Act which are in their nature undue and unreasonable.

This Court said in *Standard Oil Co.* v. *United States*, 221 U. S. 1, at p. 58:

> "Without going into detail and but very briefly surveying the whole field, it may be with accuracy said that the dread of enhancement of prices and of other wrongs which it was thought would flow from the *undue limitation* on competitive conditions caused by contracts or other acts of individuals or corporations, led, as a matter of public policy, to the prohibition or treating as illegal all contracts or acts which were *unreasonably* restrictive of competitive conditions, either from the nature or character of the contract or act or where the surrounding circumstances were such as to justify the conclusion that they had not been entered into or performed with the legitimate purpose of reasonably forwarding personal interest and developing trade, but on the contrary were of such a character as to give rise to the inference or presumption that they had been entered into or done with the intent to do wrong to the general public and to limit the right of individuals, thus restraining the free flow of commerce and tending to bring about the evils, such as enhancement of prices, which were considered to be against public policy."

Referring to the construction it had placed upon the words "restraint of trade" in the *Standard Oil Case*, the Court said in *United States* v. *American Tobacco Co.*, 221 U. S. 106, at p. 179:

> "Applying the rule of reason to the construction of the statute, it was held in the *Standard Oil Case* that as the words 'restraint of trade' at common law and in the law of this country at the time of the adoption of the Anti Trust Act only embraced acts or contracts or agreements or combinations which operated to the prejudice of the public interests by *unduly restricting competition* or *unduly obstructing* the due course of trade or which, either because of their inherent nature or effect or because of the evident purpose of the acts, etc., injuriously restrained trade, that the words as used in the statute were designed to have and did have but a like significance. It was therefore pointed out that the statute did not forbid or restrain the power to make normal and usual contracts to further trade by resorting to all normal methods, whether by agreement or otherwise, to accomplish such purpose. In other words, it was held, not that acts which the statute prohibited could be removed from the control of its prohibitions by a finding that they were reasonable, but that the duty to interpret which inevitably arose from the general character of the term restraint of trade required that the words restraint of trade should be given a meaning which would not destroy the individual right to contract and render difficult if not impossible any movement of trade in the channels of interstate commerce—the free movement of which it was the purpose of the statute to protect."

In *Nash* v. *United States*, 229 U. S. 373, at page 376, the Court referred to the *Standard Oil* case and the *Tobacco* case and said:

> "Those cases may be taken to have established that only such contracts and combinations are within the Act as, by reason of intent or the inherent nature of the contemplated acts, prejudice the public iterests by *unduly restricting* competition or *unduly obstructing* the course of trade."

This construction of "restraint of trade" as used in the Sherman Act has been repeatedly reaffirmed by this Court. See *United States* v. *St. Louis Terminal*, 224 U. S. 383, 395; *United States* v. *Union Pacific R. R. Co.*, 226 U. S. 61, 82, 84; *United States* v. *Reading Co.*, 226 U. S. 324, 369, 370; *Eastern States Retail Lumber Assn.* v. *United States*, 234 U. S. 600, 609, 610; *United States* v. *Colgate & Co.*, 250 U. S. 300, 302; *United States* v. *American Linseed Oil Co.*, 262 U. S. 371, 388.

In *Chicago Board of Trade* v. *United States*, 246 U. S. 231, the Court said at page 238:

> "But the legality of an agreement or regulation cannot be determined by so simple a test, as whether it restrains competition. Every agreement concerning trade, every regulation of trade, restrains. To bind, to restraint, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. *To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts.* This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences. The District Court erred, therefore, in striking from the answer allegations concerning the history and purpose of the Call rule and in later excluding evidence on that subject. But the evidence admitted makes it clear that the rule was a *reasonable regulation* of business consistent with the provisions of the Anti-Trust Law."

That the agreements involved in this suit were reasonable and made in good faith has been shown at pages 54-96, *supra*,

3. The patent law grants a patentee a fixed monopoly and permits the imposition of any restrictions on the use of his patent by another which do not broaden the scope of this monopoly.

Each primary defendant owns patents for various processes for the manufacture of gasoline by cracking, which, after thorough investigation in this litigation, the Master has found to be valid; and the District Court adopted that finding (p. 48, *supra*). It is the essence of a patent that it confers upon the patentee a fixed monopoly. As was said by Mr. Justice Peckham in *Bement* v. *National Harrow Co.*, 186 U. S. 70, at page 91 (which case was specifically approved in *United States* vs. *General Electric Co.*, 272 U. S. 476, 491):

> "The very object of these laws is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

The monopoly granted is "the right to exclude everyone from making, using or vending the thing patented without the permission of the patentee." *Bloomer* v. *McQuewan*, 14 How. 539, 549. This monopoly he may exercise alone or he may share it with others according to his will and pleasure and for his own best advantage.

> "If he see fit, he may reserve to himself the exclusive use of his invention or discovery. If he will neither use his device or permit others to use it, he has but suppressed his own. * * * His title is exclusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it."

He may impose upon others any restraint which he sees fit, so long as he does not broaden the scope of the monopoly

conferred upon him. Referring to the rights of a patentee, Mr. Chief Justice Taft in *United States* v. *General Electric Co.*, 272 U. S. 476, 489, said:

> "The owner of a patent may assign it to another and convey, (1) the exclusive right to make, use and vend the invention throughout the United States, or, (2) an undivided part or share of that exclusive right, or (3) the exclusive right under the patent within and through a specific part of the United States. * * * Conveying less than title to the patent, or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."

If his patent rights are threatened by some competing patentee, he may resort to the Courts for defense, or, if he chooses, he may settle the conflict by a peaceable treaty and for a consideration relieve himself of possible suits. This consideration may be a money payment or a grant of reciprocal rights. There is, we undertake to assert, no prohibition in the law against cross-licensing as between patentees.

The case of *United States* vs. *General Electric Co. et al.*, 272 U. S. 476, dealt, in part, with the validity (from the standpoint of the Anti-Trust laws) of a non-exclusive license which the General Electric Company had granted to the Westinghouse Electric & Manufacturing Company under certain enumerated patents, patents to issue on enumerated pending applications "and under any United States patents which the Licensor may own or control, during the term of this license [which was until the expiration of the patents to issue upon applications then pending] for improvements in" etc. The Westinghouse Company, the Licensee, reciprocally granted to the General Company a non-exclusive license under the patents which it then owned "and under any United States patents which the Licensee may own or control, during the term of this agreement, for improvements in" the same devices. So there existed com-

plete cross-licensing, by non-exclusive licenses, as to patents present and future. The Government charged, in its petition in that case, that

> "Said agreement between defendants was an unlawful contract and combination in restraint of trade, for the following reasons: First, it consolidated the patent monopolies possessed by the defendants and enlarged in scope and extended in time the monopoly of manufacturing lamps of a specific character possessed by each of defendants under patents owned by it alone."

The Government in its brief was silent as to this charge, evidently recognizing that it was unwarranted. The license from the General Company to the Westinghouse Company was non-exclusive, and that from the Westinghouse Company to the General Company was similarly non-exclusive. Neither company granted to the other any part of its patent monopoly; that is, neither received any right to exclude others from the use of the inventions of the other. Each received, merely, freedom from suit against it by the other—each waived the right to exclude the other from the use of its inventions. The agreement did not consolidate or enlarge any monopoly. Its effect was the reverse of this. It destroyed *pro tanto* the monopoly under patents which each held—it opened up those inventions to the use of the other.

The Government, in its brief in that case, after summarizing the authorities, stated:

> *"By the very terms of the statute, the right of exclusion vested in the patentee applies to persons and territory.* The patentee is given an *exclusive right* to make, use, and vend—or as construed by this Court, the right to exclude all others from making using or vending—'the invention or improvement *throughout the United States.*' The patentee may, therefore, for such compensation as he may see fit to exact, *and to the extent he may desire, withdraw his right of exclusion as to such individuals and as to such territory as he may choose, but that is all he can do under the authority of the patent law."* (Italics in original).

That the Government was right in stating that the patentee may withdraw his right of exclusion *to the extent* he may desire and *as to such territory* as he may choose, is fully borne out by the authorities. Limitations as to extent of use are common and universally recognized to be proper. (*Burr* v. *Duryee*, Fed. Cas. No. 2190; *Pope Mfg. Co.* v. *Owsley*, 27 Fed. 100, 124; *Aspinwall Mfg. Co.* v. *Gill*, 32 Fed. 697; *Dorsey International Harvester Co.* v. *Bradley Mfg Co.*, Fed. Cas. No. 4015). Limitations as to place and character of use are, also, common and recognized to be proper. (*Rubber Co.* v. *Goodyear*, 7 Wall. 788, 799; *Burr* v. *Duryee*, Fed. Cas. No. 2190; *Steam Cutter Co.* v. *Sheldon*, Fed. Cas. No. 13331; *Pope Mfg. Co.* v. *Owsley*, 27 Fed. 100, 104).

But, in *United States* v. *General Electric Co.*, the Government urged, in its brief:

> "The patentee for such consideration as may be satisfactory to him may permit anyone he may designate to make and sell the 'invention or improvement' in any part of the United States he may choose, but when he goes further and requires a covenant as to how it shall be sold, or the plan by which it shall be distributed, or the prices at which the licensee who makes and owns it shall sell it, such covenant is beyond the realm of the patent law, and its legality must be determined by the principles of the general law relating to contracts."

This Court, however, held (272 U. S. 476) that the Government's contention was erroneous and that the limitations were entirely proper.

4. In suits such as this to enforce the Sherman Law, the validity, invalidity or scope of the patents owned by the several defendants is not properly in issue.

Much of the voluminous record before the Master and much of the record here (Vols. IV to VIII) deals with the validity and scope of the patents owned by the several defendants. The Government, before the Master, elected to try the case as if it were a composite suit for infringement between

itself and the primary defendants ranged in Ishmaelite fashion one against the other. It is submitted that this cannot be done.

The patents are regular on their face. The processes to which they relate are not only novel commercially but have proven of great value. There is no charge that any of the patents were obtained by fraud (with the exception of the Adams patents and, as to these, both the Master and the District Court found the charge unwarranted) or that they were procured for ulterior purposes as a result of a pre-existing collusive arrangement between patentees. No rule of law or reason compelled the patentees to litigate *inter sese* their respective rights instead of adjusting them by contract. These things being true, the legality of the contracts in evidence cannot depend in any degree on the validity or invalidity of the patents with which they deal or the relative breadth or narrowness of the patent claims.

The limit of inquiry into patents in a suit like this is reached when the original good faith of the patentees appears. If the patents are mere shams; if they were procured as part of a preconceived plan to evade the law; if they are mere "cover" for some illegal arrangement or understanding, the law, no doubt, can penetrate the device and reach the purpose that lies behind it, but such a state of facts cannot be established simply by weighing the outstanding patents one against another, and all against the background of the prior art. A wholly different character and extent of proof is required. If this were not true, every unsuccessful litigant in an infringement suit who had been so unfortunate as to make any restrictive contract in reliance on his patent would find himself exposed to all the pains and penalties of the anti-trust statutes; every licensee would act at his peril. This is the inevitable logic of the Government's contention.

Such a contention leads to the introduction into this case of issues wholly foreign to any question that should arise under the Sherman Law. The attack made upon the patents is on purely technical grounds. There is not so much as a hint or a suggestion that there was any concert of action

among the patentees either in the procurement of their patents or in the use which they individually made of them when procured.

The question for decision is not whether the patents are valid but whether the defendants have used the patent situation as "a device to lend color of legality" to the contracts. The Government can attack patents issued by it only when it is sued in the Court of Claims under the Act of June 25, 1910 (36 Stat. 851) or in a suit for cancellation on the ground of fraud. See

United States v. *American Bell Telephone Co.*, 167 U. S. 224;

American Bell Telephone Company v. *United States* (C. C. A. 1), 68 Fed. 542, 567.

However, in the present case, the patents have been held to be valid by both the Master and the District Court.

IV.

Conclusion.

The contracts upon which this suit is based were reasonable agreements made for giving to each of the parties immunities and rights which each needed for the safe conduct of its own business, and with no ulterior purpose; and they were lawful and proper, and involved no restraint of commerce.

The decree is not only without warrant in fact or in law, but is so vague and ambiguous in its terms as not to advise the parties what is and what is not forbidden. It not only makes uncertain the rights of the primary defendants, one against another, but deprives the secondary defendants of the immunities granted to them and for which they have paid. It opens the way for innumerable suits for patent infringement, makes war instead of peace the status of the industry, and for free development it substitutes a condition little short of absolute paralysis.

We submit that the report of the Special Master was correct and that the decree entered by the District Court was erroneous and should be reversed, except in so far as it decreed that the petition and supplemental petition be dismissed as to the M. W. Kellogg Company and Joseph H. Adams.

Respectfully submitted,

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December, 1930.

APPENDIX.

The Master's findings as to the various prior patents urged by the Government (see p. 35, *supra*) are as follows:

Crew's publication (Ex. 232, Vol. VIII, p. 4873) "cannot affect the Burton disclosure" (Vol. I, p. 519; and see testimony, Vol. V, pp. 3073-4).

Young's British patent of 1865 (Ex. 93, Vol. VII, p. 3916) "is entirely too vague and indefinite to clearly disclose any inventions of the patents here in issue" (p. 153); "he taught the art nothing in regard to the discoveries and inventions here under discussion" (Vol. I, p. 522; and see testimony, Vol. V, pp. 2975; 3055-3056; 3068-3078; 3079; 3123; Vol. VI, p. 3398).

Reibeck Process (Exs. 97, 98, 99, 100, 101, 102, 152, 153, 246, 247; Vol. VII, pp. 3948; 3951; 3954; 3967; 3971; 3973; 4411; 4412; Vol. VIII, pp. 4880; 4886) "does not disclose any of the processes or products of the patents here in issue and if they even hint at them, they do not set them with that full, clear and precise description which would enable one skilled in the art to practice the invention of the patents in suit" (Vol. I, p. 525; and see testimony, Vol. V, pp. 3056-3057; 3060; 3062; 3068-3078; 3079; 3094-3097; 3138; 3273-3280; Vol. VI, pp. 3281-3317; 3337-3358; 3532; 3610; 3784).

Dewar & Redwood (Exs. 103 and 107; Vol. VII, pp. 3981; 4010)—"to convert this disclosure into a practical, economically available gasoline process, would necessarily involve the exercise of the inventive faculty, which robs the disclosure of any force as an anticipation of the patents referred to" (Vol. I, p. 528); "it signally fails to set forth the invention of any one of the claims of the patents to which it was cited" (Vol. I, p. 525; and see testimony, Vol. V, pp. 3048-3060; 3064; 3069-3088; 3134-3143; 3146; 3177-3179; 3246; 3260; Vol. VI, pp. 3315; 3674-3677; 3680; 3787).

Laing (Exs. 104, 105, 106, 230; Vol. VII, pp. 3986; 3989; 3994; Vol. VIII, p. 4863) "does not meet Adams and it certainly is far away from the Burton process

both as to the material treated and as to the manner in which it is treated" (Vol. I, p. 531; and see testimony, Vol. V, pp. 3032-3033; 3056; 3068-3069; 3077; 3078-3084; 3138-3139; 3234).

Pielsticker patents (Exs. 133 and 134, Vol. VII, pp. 4236 and 4234)—"It is perfectly clear that this reference does not disclose the invention of either of the Adams patents, the Humphrey run-back, the Lewis & Cooke bubble tower, the Manley, or Burton and Clark, or Ellis cracking process" (p. 532); "I am unable to find in this a clear disclosure of the invention, or any of the claims of the patent to which it is cited" (Vol. I, p. 533; and see testimony, Vol. V, pp. 2706; 2984; 3056-3057; 3068-3078; 3079; 3139; 3152-3172; 3190; 3217; 3223; 3225; 3244; 3256; 3260; 3267; Vol. VI, pp. 3315; 3647-3648; 3890-3892).

Barbet patents (Exs. 136, 141, Vol. VII, pp. 4268, 4331)—"Nothing contained in Barbet warrants the contention that he disclosed either the material operated upon or the process of Burton 1,105,961" (p. 540); "nothing in the Barbet, in the slightest degree, would lead the most learned and skillful in the art to infer the Burton process" (p. 541); "a comparison of the foregoing Barbet process with the Palmer patent, will readily convince anyone that the processes are dissimilar and that Barbet has no relation to the Palmer digestion method" (p. 542); "there is no evidence that Barbet's tower could perform the function of the Lewis & Cooke bubble tower" (Vol. I, pp. 534-542; and see testimony, Vol. V, pp. 3056; 3062; 3068-3078; 3097-3105; 3138-3139; 3146-3152; 3260; 3467-3498; 3636-3644; Vol. VI, pp. 3773; 3810-3811).

Thorpe & Young (Exs. 94, 95, 96, 151, 249, Vol. VII, pp. 3919; 3921; 3926; 4410; Vol. VIII, p. 4898)—"It seems to me idle to contend that they disclose the processes of either the Palmer patent, or the Ellis product patent", "there is nothing in any of these disclosures which in any manner distracts from the quality of the invention and discovery in the patents to which they are cited or from the importance of the patents in the gasoline industry. They tend to magnify rather than minify the importance of the work done by the patentees

of the patents here attacked" (Vol. I, p. 545; and see testimony, Vol. V, pp. 2829-2830; 2945-2948; 3068-3078; 3079; 3233; 3319; Vol. VI, pp. 3337-3358):

Graefe patent (Ex. 144, Vol. VII, p. 4365)—"the essence of the Cross process is the digestion tank where high pressure is employed to keep the stock liquid during the time of reaction, which is not hinted at by Graefe" (Vol. I, p. 546; and see testimony, Vol. V, p. 3090).

Bacon patent (Ex. 122, Vol. VII, p. 4149)—too late to affect the Adams patents and "it does not disclose the essential features of the Cross process" (Vol. I, p. 546; and see testimony, Vol. V, p. 3258).

Edwards patent (Ex. 142, Vol. VII, p. 4344)—too late (Vol. I, p. 546; and see testimony, Vol. V, pp. 3090-3091; Vol. VI, pp. 3673-3674).

Benton patent (Exs. 150 and 107, Vol. VI, pp. 4404; 4010) "does not show the invention of Hall" and "Benton's is not the Palmer operation" (Vol. I, p. 551; and see testimony, Vol. V, pp. 3217; 3223; 3235-3236; 3245; 3264; 3266; Vol. VI, pp. 3657; 3823).

Schuchow & Gavrilow (Ex. 129, Vol. VII, p. 4208)—"without a tedious resumé of the processes of Adams, Ellis, Hall, Humphreys and Manley, it can certainly be said that the respective inventions of the above mentioned patents are neither disclosed nor hinted at by Schuchow and Gavrilow" (Vol. I, p. 554; and see testimony, Vol. V, pp. 2984-2985; 3094-3097; 3128-3130; 3154; 3211; 3217; 3222-3224; 3245; 3265-3267; 3627-3633).

Kornfeld patent (Ex. 123, Vol. VII, p. 4159) "does not disclose the Adams invention, or the Clark invention, or any of the inventions of the patents here in issue" (Vol. I, p. 557; and see testimony, Vol. V, pp. 3177-3178; 3217; 3222; 3250; 3257; 3259-60).

Nikiforoff (Exs. 149, 154, 155, 148; Vol. II, pp. 4387; 4416; 4417; 4386)—"there is nothing here which discloses the inventions of Adams, or Burton, or Humphreys" (Vol. I, p. 560; and see testimony, Vol. V, pp. 3096; 3128-3130; 3217; 3223-3224; Vol. VI, p. 3680).

Gruening (Ex. 250, Vol. VIII, p. 4909)—"My attention has not been called to any of the defendants' patents that exhibit any such process" (Vol. I, p. 561; and see testimony, Vol. V, pp. 3217; 3223).

Testelin & Renard (Ex. 147, Vol. VII, p. 4379)—"Nothing like this occurs in any of the processes described in defendants' patents (p. 563) and "it does not disclose the Hall invention" and "its citation against Adams is fanciful" (Vol. I, pp. 561-3; and see testimony, Vol. V, pp. 3094-3097; 3128-3130; 3217; 3221-3222).

Kittle patent (Ex. 131, Vol. VII, p. 4217)—"The ingenuity of the petitioner's expert in trying to attach to this disclosure something found in Cross, or Ellis, or Hall, is more remarkable than laudable" (Vol. I, p. 565; and see testimony, Vol. V, pp. 3070; 3093-3097; 3217; 3223; 3245; 3264; 3268-3271; 3634).

Noad patents (Exs. 145 and 176, Vol. VII, pp. 4373, 4470)—"As a citation against the inventions of Adams, Burton or Humphreys, Noad is wholly irrelevant" (Vol. I, p. 567; and see testimony, Vol. V, pp. 3038; 3094-3097; 3128-3130; 3217; 3223).

Lang patent (Ex. 135, Vol. VII, p. 4255)—"It needs but a glance to show that as an apparatus it is radically different from the apparatus described in any of the patents to which it is sought to be applied" and "the process described does not meet any of the claims of any of the patents to which it is sought to be applied" (Vol. I, p. 567; and see testimony, Vol. V, pp. 3028; 3128-3130; 3217; 3222; 3247; 3680).

Turner patent (Ex. 132, Vol. VII, p. 4226)—"As an apparatus patent it does not apply to any of the apparatus patents of the defendants. As a disclosure of a process, it does not apply to any of the process patents of the defendants" (Vol. I, p. 570; and see testimony, Vol. V, pp. 3244; 3264-3265; 3217; 3223).

Renard patent (Ex. 231, Vol. VIII, p. 4868)—"A contention that there is in this showing a reaction chamber, or any vessel provided as the equivalent of Cross's reaction chamber is absolutely useless". "It is also just as idle to contend that it exhibits the essentials of the Hall patent" (Vol. I, p. 572).

Von Groeling patent (Ex. 229, Vol. VIII, p. 4855)—"It is impossible to find anything in this disclosure which relates to or affects the claims of any of the defendants' patents" (Vol. I, p. 575).

Greenstreet patent (Ex. 128, Vol. VII, p. 4197)—"It is not the Burton and Clark process, and any analogies are misleading and remote" (Vol. I, p. 576; and see testimony, Vol. V, pp. 3028; 3204).

Parker patent (Ex. 227, Vol. VIII, p. 4839)—"No pretense is made that this anticipates any of the patents here in issue" and "It is too late in date" (Vol. I, p. 576).

Holmes patent (Ex. 228, Vol. VIII, p. 4848)—"Whatever the process, it is not the process of any of the defendant's patents" (Vol. I, p. 577).

Mann patent (Ex. 143, Vol. VII, p. 4360)—"As a reference to anything that is disclosed in the Adams patents it is too remote for serious consideration" (Vol. I, p. 580).

Bresson patent (Ex. 157, Vol. VII, p. 4424)—"There is no suggestion of a Humphreys run-back, as in the Humphreys patent, No. 1,119,700; and its reference to Adams is without justification" (Vol. I, p. 583; and see testimony, Vol. V, pp. 3028; 3128-3130).

Barbet patents (Exs. 139 and 137, Vol. VII, pp. 4299 and 4277)—"This reference seems to have been brought in only as exhibiting, generally, prior art, with no specific reference to any of defendants' patents" (Vol. I, p. 583).

Inschick patent (Ex. 120, Vol. VII, p. 4128)—"The attempted application of it to a part of Adams' apparatus is fanciful, and it has no connection with the Adams process. It is equally negligible as a reference against Manley * * * or the Clark patents * * *" (Vol. I, p. 584; and see testimony, Vol. V, pp. 3177-3178; 3250-3251; 3257-3260).

Letney Article (Ex. 158, Vol. VII, p. 4428)—"It does not disclose an operation upon stock of the nature of that operated upon by Ellis; and it does not show the treatment described by Ellis, and it does not, and could

not, produce the result of Ellis, but something the reverse" (Vol. I, p. 587; and see testimony, Vol. V, pp. 3330-5).

Barbet French patent (Exs. 124 and 125, Vol. VII, pp. 4162 and 4068)—"There is no disclosure of Clark's high line invention, and the attempt to apply this apparatus to the patents in suit is entirely fanciful" (Vol. I, p. 589; and see testimony, Vol. V, pp. 3094-3097; 3177; 3250; 3257; 3257-3260).

De Souches' patent (Ex. 156, Vol. VII, p. 4419)—"It is worthless as a reference to Clark" (Vol. I, p. 590; and see testimony, Vol. V, pp. 3177; 3257).

Atwood patent (Ex. 80, Vol. VII, p. 3899).—What Burton did "is the reverse of what Atwood was undertaking to do" (Vol. I, p. 591; and see testimony, Vol. V, pp. 3173-3177; 3625-3626).

Gaster patent (Ex. 127, Vol. VII, p. 4177)—"The apparatus could not be converted into Adams' distillation column, without the exercise of invention" (Vol. I, p. 594; and see testimony, Vol. V, pp. 3250-3256; 3173-3177).

Lennard patent (Ex. 121, Vol. VII, p. 4142)—"It is perfectly obvious that the reference does not disclose the Adams inventions, or either of them" (Vol. I, p. 596; and see testimony, Vol. V, pp. 3250-3256).

Warden patent (Ex. 126, Vol. VII, p. 4172)—"It wholly fails to meet Adams" (Vol. I, p. 597; and see testimony, Vol. V, p. 3250).

De Clerq patent (Ex. 130, Vol. VII, p. 4213)—"It is cited as against Adams, the Clark tube still and the Manley patent, to neither of which it has any application" (Vol. I, p. 598; and see testimony, Vol. V, pp. 3120-3128; 3245).

Henderson patent (Ex. 81, Vol. VII, p. 3906)—Humphrey's provision "for catching the carbon is not the same as Henderson's" (Vol. I, p. 601; and see testimony, Vol. V, pp. 3050-3051; 3110-3113).

Riebeck patent (Ex. 97, Vol. VII, p. 3948)—"It distinguishes itself completely from the Ellis product, which is a gum free heavy gasoline" (Vol. I, p. 602; and see testimony, Vol. V, p. 3338).

Engler & Schneider (Ex. 98, Vol. VII, p. 3951)—"have no possible relation to either the Ellis process, or product" (Vol. I, p. 602; and see testimony, Vol. V, p. 3338).

Walker patent (Ex. 111, Vol. VII, p. 4026)—"It is the antithesis of the Ellis process and product" (Vol. I, p. 602; and see testimony, Vol. V, pp. 3337-3358).

Williams Article (Ex. 114, Vol. VII, p. 4041)—"It does not disclose anything suitable for motor fuel use, and does not describe the Ellis product" (Vol. I, p. 603; and see testimony, Vol. V, pp. 3337-3358).

Cabot Article (Ex. 112, Vol. VII, p. 4033)—"Is a patentable disclosure of nothing, and certainly not of Ellis" (Vol. I, p. 603; and see testimony, Vol. V, pp. 3338-3341).

Armstrong & Miller (Ex. 119, Vol. VII, p. 4105)—"This is not the Ellis process and the result of their treatment was not the Ellis product" (Vol. I, p. 603; and see testimony, Vol. V, pp. 3328-3329; 3329-3335; 3338-3342).

Boynton patent (Ex. 109, Vol. VII, p. 4020)—"is neither the process or the product of Ellis" (Vol. I, p. 603; and see testimony, Vol. V, pp. 3337-3358).

Bassett patent (Ex. 110, Vol. VII, p. 4024)—"has no relation, whatever, to Ellis, either as to process, or product" (Vol. I, p. 603; and see testimony, Vol. V, pp. 3337-3358).

Spear's patent (Ex. 108, Vol. VII, p. 4018)—"As a disclosure of either the process or product of Ellis, it deserves little attention" (Vol. I, p. 604; and see testimony, Vol. V, pp. 3337-3358).

Allen Papers (Exs. 113 and 115, Vol. VII, pp. 4034 and 4043) were not for "the product of Ellis" (Vol. I, p. 604; and see testimony, Vol. V, pp. 3010-3011; 3321; 3330-3332; 3337-3358).

Aisiniman Publication (Ex. 118, Vol. VII, p. 4070)—"nothing suggested by Aisinman came anywhere near the Burton twine oil, as to its terms" and what it teaches is "exactly the reverse of the teaching of Ellis' process" (Vol. I, p. 606; and see testimony, Vol. V, pp. 3273-3319; 3326; 3330).

Redwood's Treatise (Ex. 116, Vol. VII, p. 4064)—"there is nothing in the article suggestive of Ellis" (Vol. I, p. 606; and see testimony, Vol. V, pp. 3330-3332).

Mills Manual—"It does not, in any manner, disclose the process and product of Ellis" (Vol. I, p. 606; and see testimony, Vol. V, pp. 3330-3335; 3325).

Vittinet patent (Ex. 117, Vol. VII, p. 4069)—"Neither one of these three treatments is the process of Ellis, and the result of either of the treatments would not be the Ellis motor fuel" (Vol. I, p. 606; and see testimony, Vol. V, pp. 3330-3332).